LEGISLATIVE FISCAL REPORT
1997 BIENNIUM

OVERVIEW

OFFICE OF THE LEGISLATIVE FISCAL ANALYST

HELENA, MONTANA · JUNE 1995

LEGISLATIVE FISCAL REPORT
1997 Biennium
Overview

Presented to the Fifty-fourth Legislature

Submitted by

The Office of the Legislative Fiscal Analyst

Helena, Montana

June 1995

CONTENTS

OVERVIEW

VOLUME I

VOLUME II

LEGISLATIVE FINANCE COMMITTEE

Representative Mike Kadas, *Chairman*
Senator Ethel Harding, *Vice-Chairman*

Representative Ed Grady
Representative Royal Johnson
Representative Matt McCann
Representative Bob Raney
Representative Tom Zook

Senator Eve Franklin
Senator Judy Jacobson
Senator Loren Jenkins
Senator Larry Tveit
Senator Fred Van Valkenburg

OFFICE OF THE LEGISLATIVE FISCAL ANALYST

Clayton Schenck, Legislative Fiscal Analyst
Terry Johnson, Principal Fiscal Analyst
Taryn Purdy, Principal Fiscal Analyst
Sandy Whitney, Senior Fiscal Analyst
Lois Steinbeck, Senior Fiscal Analyst
Terri Perrigo, Senior Fiscal Analyst
Lisa Smith, Senior Fiscal Analyst
Roger Lloyd, Senior Fiscal Analyst
Mary Longmaid, Associate Fiscal Analyst
Jim Standaert, Associate Fiscal Analyst
Skip Culver, Associate Fiscal Analyst
Lorene Thorson, Associate Fiscal Analyst
Nan LeFebvre, Associate Fiscal Analyst
Mark Lee, Associate Fiscal Analyst
Lisa Mader, Administrative Support
Shauna Ryan, Secretary III

STAFF ASSIGNMENTS
OFFICE OF THE LEGISLATIVE FISCAL ANALYST

GENERAL GOVERNMENT & TRANSPORTATION

Skip Culver
- Transportation

Lorene Thorson
- Governor's Office
- Legislative Auditor
- Legislative Fiscal Analyst
- Legislative Council
- Environmental Quality Council
- Consumer Counsel
- Commissioner of Political Practices
- State Auditor

Terri Perrigo
- Revenue
- Administration
- Public Employees' Retirement System
- Teachers' Retirement System
- Secretary of State
- Appellate Defender
- Montana Chiropractic Legal Panel
- Judiciary

HEALTH & HUMAN SERVICES

Lois Steinbeck
- Social and Rehabilitation Services*
- Family Services*

Mark Lee
- Labor and Industry
- Health and Environmental Sciences*

NATURAL RESOURCES & COMMERCE

Mark Lee
- Natural Resources

Roger Lloyd
- Fish, Wildlife, and Parks
- Livestock
- State Lands*
- Agriculture
- Public Service Regulation
- Commerce

INSTITUTIONS & PUBLIC SAFETY

Lisa Smith
- Corrections and Human Services**
- Montana Arts Council
- State Library Commission
- Montana Historical Society

INSTITUTIONS & PUBLIC SAFETY (continued)

Lorene Thorson
- Justice
- Board of Crime Control
- Highway Traffic Safety***

Terri Perrigo
- Military Affairs

EDUCATION

Sandy Whitney
- Commissioner of Higher Education
- Montana University System (MUS)
- Community Colleges
- Agricultural Experiment Station
- Cooperative Extension Service
- Fire Services Training School
- Forestry & Conservation Experiment Station
- Bureau of Mines
- Colleges of Technology

Robert (Skip) Culver
- Board of Public Education
- Office of Public Instruction
- School for the Deaf and Blind
- Vocational Education Council

LONG-RANGE PLANNING

Nan LeFebvre
- Long-Range Building Program

REVENUE ESTIMATING & MONITORING

Terry Johnson
Jim Standaert
Nan LeFebvre

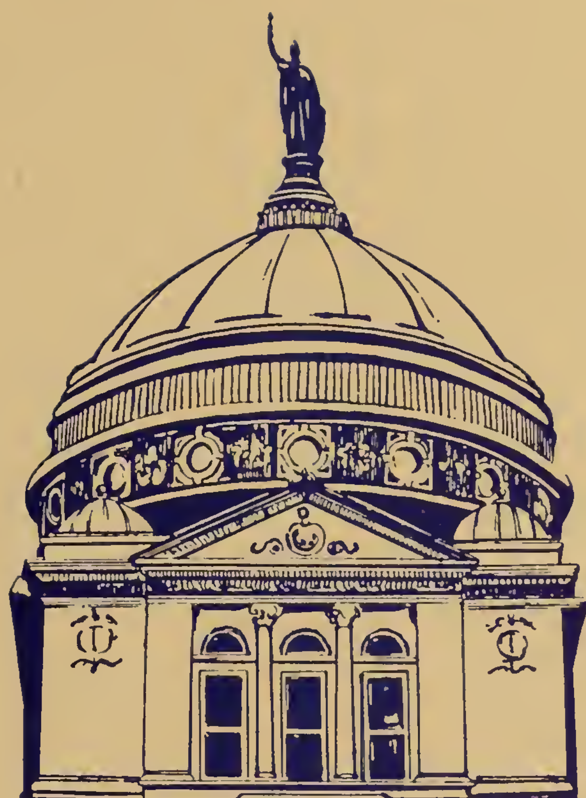
SCHOOL FOUNDATION

Jim Standaert

DATA PROCESSING

Terry Johnson
Mary Longmaid

* Reorganization eliminates these agencies in the 1997 biennium. The new human service agency is the Department of Public Health and Human Services. The new natural resources agencies are the Department of Environmental Quality and the expanded Department of Natural Resources and Conservation.
** Becomes the Department of Corrections as a result of reorganization.
*** Transfers to Department of Transportation under reorganization.



INTRODUCTION

INTRODUCTION

Purpose of the Report

The purpose of the Legislative Fiscal Report (formerly the Appropriations Report) is to report to the 1995 legislature and all interested parties on the fiscal actions of the 1995 legislature and the fiscal status of state government through the 1997 biennium. It accomplishes this purpose by: 1) reporting on appropriations to and revenues of state government as determined by the legislature; and 2) discussing other fiscal issues pertaining to the state's fiscal status.

How to Use this Report

Volumes I and II discuss the economic assumptions and revenue forecasts used by the legislature, as well as appropriations and policy decisions pertaining to state agency programs. In contrast, this volume (the "Overview") presents a broader fiscal overview and summarizes significant fiscal actions having a statewide or multi-agency impact. Therefore, the reader may use this document for a summary of state government fiscal position and issues, and use Volumes I and II for greater detail, if desired.

The report has nine components, listed here and described further below:

OVERVIEW:

Legislative Action Summary
Appropriations Summary
Tax Policy and Initiatives
Other Budget Highlights
General Fund Structural Balance

VOLUMES I AND II:

Revenue Estimates
HJR 9
Appropriations by Agency and Program
HB 2

Legislative Action Summary

This section provides a summary of the overall state fiscal position and of legislative budget action. It includes a summary of general fund and total fund revenues and expenditures in the 1997 biennium, as well as the anticipated state general fund balance at the end of both the 1995 and 1997 biennia. It also serves as a summary of major fiscal policy issues and budget action discussed in more detail in subsequent sections, including a comparison of the budgets established for the 1997 biennium to both the 1995 biennium and the published Executive Budget.

Appropriations Summary

This section summarizes, by function of state government, major policy decisions of the legislature in various functional areas, such as human services and education. It's purpose is to provide the reader with a quick reference on major actions by the legislature and on any resulting changes in overall state government scope and/or emphasis. Each function, by individual agency, is discussed in greater detail in the "Appropriations by Agency and Program" narrative.

Tax Policy and Initiatives

This section provides a summarization and review of the major tax policy and revenue initiatives considered and those approved by the legislature.

Other Budget Highlights

This section provides a brief discussion of each of several other budget issues addressed by the legislature that either have a statewide or multi-agency impact.

General Fund Structural Balance

The sufficiency of ongoing revenue to fund ongoing expenditures of the general fund is discussed in this section.

Revenue Estimates

The "Revenue" section provides a summary and overview of major revenue sources to the state, including general fund, trust funds, and Resource Indemnity Trust. The sections also includes a discussion of the economic assumptions used to derive the revenue estimates established by the legislature in House Joint Resolution 9.

INTRODUCTION

HJR 9

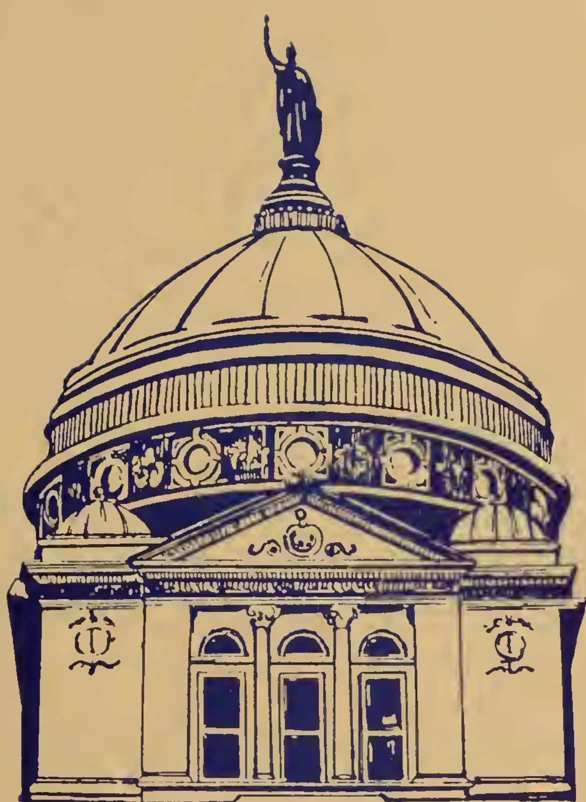
For reference, a copy of HJR 9 is provided. This resolution, approved by both houses, provides an official estimate of the state's anticipated revenue for each year of the 1997 biennium.

Appropriations by Agency and Program

Within this narrative, sections A through E include a detailed discussion of the appropriations established by the legislature for each agency and program in state government that receives an appropriation in House Bill 2. Each section contains a number of agencies organized by functional grouping. Also included is a brief discussion within each agency of other bills having a fiscal impact on the agency. A more detailed explanation of the organization and content of this narrative is included in the introduction in Volume I. This narrative also includes, under section F, a discussion of all budget initiatives in the Long-Range Building Program.

House Bill 2

For reference, the report ends with the inclusion of a copy of HB 2 (the general appropriations act). This copy of the bill includes all reorganizations approved by the legislature in various other legislation.



LEGISLATIVE ACTION SUMMARY

LEGISLATIVE ACTION SUMMARY

An improved state economy, increased state revenues, and the implementation of policy initiatives by the previous legislature significantly brightened the state general fund financial outlook for the 1997 biennium. This provided the 54th Legislature the opportunity to address budget issues without the chronic general fund budget deficit problem that plagued Montana for several bienniums. This section briefly summarizes the 1993 Legislature's response to the state's fiscal outlook. The remainder of this volume characterizes the legislature's 1997 biennium budget response in several categories, including budget comparisons (to the prior biennium and to the executive proposals), appropriations and tax policy initiative summaries, and a review and discussion of some of the major fiscal policy changes and issues dealt with by the legislature.

A sluggish state economy as well as a structurally imbalanced general fund (with ongoing expenditures exceeding ongoing revenues) in the past few biennia has created an environment of fiscal constraint and state budget reductions, including a series of across-the-board budget cuts to meet budget shortfalls. Three special sessions of the legislature were necessary over the past two bienniums to address budget shortfalls and develop budget balancing measures.

A combination of a revived state economy as well as the achievement of a general fund structural balance by the 1993 legislature resulted in the improved fiscal outlook as the 1995 legislature convened. The pre-session general fund estimates projected an ending fund balance of $73 million with full funding of present law services, compared to a normal target ending fund balance of $20 - $25 million. This left the legislature with an approximate $50 million budget "surplus" over proposed present law needs.

Although the 1995 legislature was afforded the luxury of dealing with a budget surplus, the mood of the 1993 session was one of continued fiscal constraint, with emphasis on control of government growth. Desires to downsize government had to be balanced against chronic demands for increased government services in the form of increasing school enrollments, the need for corrections and welfare reform, and growing federal entitlement mandates.

The legislature responded to the improved revenue outlook and the resultant general fund surplus with initiatives that can be summarized in three major categories, as shown in Table 1 and explained below.

Table 1
Legislative Action Summary
General Fund "Surplus"
1997 Biennium

Pre-Session Projected Fund Balance	$72.7
Post-Session Projected Fund Balance	21.8
Surplus	$50.9
Legislative Action	
Downsizing	($28.9)
New Initiatives	46.7
Tax Changes/Rebates	51.0
Other	(17.9)
Total	$50.9

1) Downsizing - Although the total cost of present law services increased due to maintenance of full employee staffing, inflation, and caseload increases, the legislature trimmed the executive present law budget proposals by nearly $30 million through elimination of services, agency reorganizations and consolidation of functions, and general efficiency initiatives to provide the same or better services for less cost. These initiatives include revised medicaid projections and other medicaid savings.

2) New Initiatives - The legislature approved increases in state expenditures of nearly $47 million for new initiatives and reform measures. These include expanded human services programs, welfare reform, and corrections/crime control reform to deal with crime control and rising corrections populations.

3) Tax Changes/Rebates - The legislature provided a net of $51 million in tax relief to taxpayers through a combination of tax changes and tax rebates, including personal property tax reductions, residential property rebates, income tax refunds, and natural resource tax changes.

The "other" category includes adjustments from original projections, including reduced legislative session costs and lower school enrollment projections. The largest component is the rescinding of a proposed $10 million transfer of funds from the general fund to the capital projects fund.

The following provides additional detail on fund balance history, and revenue and disbursement actions by the legislature to achieve the target 1997 biennium ending fund balance.

1995 Biennium General Fund Balance

The 1995 legislature adjourned from the regular session with a projected general fund ending fund balance for the 1997 biennium of $21.8 million. This is an overall reduction of $19.3 million from the anticipated 1995 biennium general fund balance.

Table 2 shows the projected 1995 biennium ending fund balance at three different points throughout the 1995 biennium. The first estimate ($24.4 million) was developed after action taken by the November 1993 Special Legislative Session. The second estimate was developed during the fall of 1994 in preparation for the 1995 regular legislative session. This estimate ($34.1 million) included supplemental requests as provided by the Executive and the impact of all state and federal laws in existence prior to January 1, 1995. The reason for the fund balance improvement was due to stronger revenue growth with partial offsets due to supplemental requests and a one-time $10 million appropriation to the capital projects fund.

The third estimate was prepared after adjournment of the 1995 legislature. This estimate incorporates all supplementals approved by the legislature, the repeal of section 23 of HB 5 enacted during the 1993 session, and legislative session costs that were less than anticipated prior to the convening of the session. This balance of $41.1 million was the starting point for the formulation of the 1997 biennium budget.

LEGISLATIVE ACTION SUMMARY

Table 2
Comparison of 1995 Biennium General Fund/SEA Balance
In Millions

Fund Balance Item	November 1993 Special Session		January 1995 LFA Budget Analysis		Post Session Legislative Fiscal Report		Differences	
Beginning Fund Balance		$52.2		$52.2		$52.2		$0.0
Estimated Revenues								
General Fund		1,083.3		1,122.2		1,122.2		(0.1
School Equalization Account		690.7		704.1		704.1		(0.0
Total Revenue		$1,774.0		$1,826.4		$1,826.3		($0.1
Total Rev. Available		$1,826.2		$1,878.5		$1,878.5		($0.1
Estimated Disbursements								
State Agencies & University System		$926.7		$937.4		$937.4		$0.1
School Equalization Account								
Direct State Aid	539.4		539.1		539.1		0.0	
Guaranteed Tax Base	262.9		265.1		265.2		0.1	
Transportation	7.8		7.8		7.8		0.0	
Other	2.5		4.1		3.7		(0.4)	
Total SEA		$812.5		$816.1		$815.9		($0.3
Statutory Appropriations								
Personal Property Reimbursement	36.7		36.8		36.8		0.0	
Debt Service	20.5		27.1		27.1		0.0	
TRANS	4.2		4.9		4.9		0.0	
Other	9.2		8.4		8.4		0.0	
Total Statutory		$70.6		$77.1		$77.1		$0.0
Legislative Session Costs		5.7		5.3		4.7		(0.6
Supplementals		0.0		16.5		19.9		3.5
Reversions		(10.0)		(5.2)		(5.2)		0.0
Total Disbursements		$1,805.6		$1,847.2		$1,849.8		$2.7
Adjustments		3.4		10.2		10.1		(0.2
Residual Equity Transfer		0.4		2.5		2.5		0.0
Capital Projects Transfer		0.0		(10.0)		0.0		10.0
Ending Fund Balance		$24.4		$34.1		$41.1		$7.1

1997 Biennium

Table 3 shows the 1997 biennium projected balances in the general fund account prior to and after the Fifty-fourth Legislature. The purpose of this comparison is to highlight legislature action in formulating the 1997 biennium budget.

The pre-session estimate of $72.7 million was developed under the constraints of Section 5-12-303, MCA. These statutes require the Executive and the Legislative Fiscal Analyst to develop and analyze the biennium budget using base, present in Section 17-7-102, MCA. In essence, the projected balance of $72.7 million would have been the balance if the legislature would have continued state government operations at the "present" authorized level including all existing taxation laws.

The second estimate of $21.8 million is the post-session estimate which incorporates all legislation enacted by the Fifty-fourth Legislature. Table 3 highlights significant revenue and disbursement actions. The following discussion briefly explains these actions.

Table 3
Comparison of 1997 Biennium General Fund/SEA Balance
Pre-Session vs. Post-Session Budget (In Millions)

Fund Balance Item	Budget Before Session 1997 Biennium		Budget After Session 1997 Biennium		Differences	
Beginning Fund Balance		$41.1		$41.1		$0.0
Estimated Revenues						
General Fund / SEA per HJR 9		1,953.5		1,953.5		0.0
Significant Revenue Actions						
Personal Property Rate Reductions	0.0		(18.3)		(18.3)	
Oil,Coal,Gas Tax Revisions	0.0		1.1		1.1	
Income Tax Revisions	0.0		(8.9)		(8.9)	
Liquor Inventory Reduction	0.0		4.4		4.4	
De-Earmarking (Excludes SEA)	0.0		18.6		18.6	
All Other Legislation	0.0		2.1		2.1	
Total Changes		$0.0		($1.0)		($1.0)
Total Revenue Available		$1,994.6		$1,993.6		($1.0)
Estimated Disbursements						
State Agencies at Present Law		$1,016.8		$1,016.8		$0.0
Significant Disbursement Actions						
Present Law Reductions	0.0		(28.9)		(28.9)	
New Proposals	0.0		26.2		26.2	
Income Tax Relief	0.0		16.4		16.4	
Residential Property Tax Relief	0.0		15.0		15.0	
Miscellaneous Appropriations	0.0		3.9		3.9	
Employee Pay Increases	0.0		16.6		16.6	
De-earmarking (Excludes SEA)	0.0		18.0		18.0	
Total Changes		$0.0		$67.2		$67.2
Total Agencies		$1,016.8		$1,084.0		$67.2
School Equalization Account						
Direct State Aid	546.2		543.0		(3.2)	
Guaranteed Tax Base	285.2		281.2		(4.1)	
Transportation	7.8		7.8		(0.0)	
Other	3.8		4.9		1.1	
Total SEA		$843.1		$836.9		($6.2)
Statutory Appropriations						
Personal Property Reimbursement	36.8		36.8		0.0	
Debt Service	11.7		11.9		0.3	
TRANS	4.6		3.3		(1.3)	
Other	9.2		9.1		(0.1)	
Total Statutory		$62.2		$61.0		($1.2)
Legislative Session Costs		5.4		4.8		(0.6)
Supplementals		0.0		0.0		0.0
Reversions		(5.0)		(5.0)		0.0
Total Disbursements		$1,922.4		$1,981.7		$59.2
Adjustments		(2.3)		(2.3)		0.0
Residual Equity Transfer		2.9		12.2		9.3
Ending Fund Balance		$72.8		$21.8		($51.0)

LEGISLATIVE ACTION SUMMARY

Significant Revenue Actions

Personal property tax rates were reduced on business equipment and machinery from 9 percent to 6 percent over a three-year period beginning January 1, 1996. The loss in revenue to counties, schools, and cities in fiscal years 1996 through 1999 will be reimbursed by the state. The reimbursements beyond fiscal 1999 will be phased out at the rate of 10 percent per year. After fiscal 2009 no further reimbursements will be made. During the 1997 biennium the state revenues will be reduced by $18.3 million.

Oil and gas taxes were consolidated in a new oil and gas production tax, which will apply to production beginning on January 1, 1996. In addition to the new production tax, other legislation was passed with minor fiscal impacts on oil, coal, and gas taxes. The net gain in revenue to the state during the 1997 biennium is expected to be $1.1 million.

Income taxes were reduced by $8.9 million during the 1997 biennium as a result of the passage of several bills. One bill established a new deduction for one-half of premiums paid for health insurance, and another bill exempted from income payments to a medical care savings account. Another bill established a lower dollar amount for the minimum standard deduction, and another bill revised the frequency with which companies must remit withholding payments to coincide with federal law. Income taxes were further reduced by a bill which expanded income limits for the homeowner/renter credit and increased the maximum credit from $400 to $1,000. The credit for contributions to colleges or universities was also extended.

Liquor inventory was reduced to zero by a bill which converted state liquor stores to agency stores. Net revenue to the state from the sale of liquor inventory will be $4.4 million in fiscal 1997.

Senate Bill 83 de-earmarked revenues from several state special revenue accounts and directed their deposit in the general fund. Beginning in fiscal 1996, the following major revenue sources will be deposited in the general fund: coal trust interest, lottery revenues, nursing bed fees, and property taxes. The net gain to the general fund is expected to be $18.6 million during the 1997 biennium, although there are offsetting new general fund appropriations, as discussed below.

Other legislation was passed which will increase net general fund revenues by $2.1 million during the 1997 biennium. Legislation which will increase general fund revenues includes: a revision of the driver's licensing laws that will provide 8 year licenses; expedition of timber sales in emergency situations; an expansion of electronic filing for income and fuel taxpayers; expansion of the medicaid estate recoveries program; and an act streamlining the method by which car dealers may title their vehicles. Legislation that will reduce general fund revenues includes: expansion of property tax relief to the elderly, low income persons and owners of farmsteads; expansion of programs to loan coal severance tax trust monies for job creation; and diversion of timber sale revenue to pay for timber sale programs that will result in greater sales of timber in the next biennium.

Significant Disbursement Actions

The legislature increased state agency expenditures in the general appropriations act by over $436 million. This increase was primarily due to present law adjustments. The largest increases took place in human services benefits, primarily medicaid, K-12 education enrollment increases, and maintenance full state employee staffing and annualization of the 1995 biennium pay plan. (Reduction in state employee levels to fund the 1997 biennium pay plan are included in new proposals.) The reduction of $29 million in present law adjustments from the executive requested level shown in the balance sheet is primarily due to revised medicaid projections and other anticipated medicaid savings. The legislature added a net $26 million for new proposals. About 90 percent of the net increase for new proposals is added to address the rising corrections population, and to expand other human services programs, primarily for the developmentally disabled.

LEGISLATIVE ACTION SUMMARY

While there was a re-prioritization of state government disbursements for the 1997 biennium, the legislature also implemented income and residential property tax relief via direct appropriation from the state general fund. This tax relief will be received in the form of state warrants issued in November of 1995 and 1996. These disbursements from the general fund are estimated to be approximately $31.4 million for the 1997 biennium. (See "Tax Policy and Initiatives" in this volume for additional details on taxation policy.)

The legislature also adopted an employee pay plan for the 1997 biennium. This pay increase is estimated to cost about $35.6 million, with $16.6 million being provided by the state general fund. (See "State Employee Pay Plan" in this volume for additional details on employee pay.)

As with previous legislative sessions, there are numerous miscellaneous appropriations ("cats and dogs" bills) that were discussed throughout the session. The Fifty-fourth Legislature minimized these appropriations and enacted only $3.9 million of miscellaneous appropriations. These bills are discussed in more detail in agency narratives of Volumes I and II of this publication.

The last significant disbursement change adopted by the legislature was the de-earmarking of various revenue sources. Although the revenue from these sources is to be deposited in the general fund, a corresponding general fund appropriation is necessary in order to continue the state functions. Senate Bill 83 implemented these changes and the impact on the ending fund balance is estimated to be minimal.

Fund Balance

Tables 4 and 5 show the detailed general fund and SEA account cash and fund balances.

Table 4
Estimated General Fund Balance
Figures In Millions

	Actual Fiscal 1994	Estimated Fiscal 1995	Estimated Fiscal 1996	Estimated Fiscal 1997	Estimated Fiscal 94-95	Estimated Fiscal 96-97
Beginning Fund Balance	$41.471	$32.592	$41.132	$22.197	$41.471	$41.132
Receipts						
Estimated Receipts	480.021	642.160	966.822	985.602	1,122.181	1,952.424
Total Available	$521.492	$674.752	$1,007.954	$1,007.799	$1,163.652	$1,993.556
Disbursements						
General Appropriations	463.504	447.548	931.250	935.785	911.052	1,867.035
School Equalization Account	0.000	98.914	0.000	0.000	98.914	0.000
Language Appropriations	0.000	0.000	0.000	0.000	0.000	0.000
Pay Plan Appropriations	0.000	4.875	4.925	11.633	4.675	16.558
Statutory Appropriations	0.000	0.000	0.000	0.000	0.000	0.000
Income Tax Refund	0.000	0.000	16.378	0.000	0.000	16.378
Property Tax Reimbursement	18.383	18.383	18.383	18.383	36.766	36.766
Debt Service	12.706	14.428	7.771	4.159	27.134	11.930
TRANS Interest	2.275	2.582	2.233	1.023	4.857	3.256
Retirement Benefits	0.000	0.000	0.000	0.000	0.000	0.000
District Court Reimbursement	3.008	3.887	4.055	4.208	6.895	8.263
Depository Banking Services	0.556	0.803	0.400	0.400	1.359	0.800
DUI Testing Equipment	0.050	0.050	0.000	0.000	0.100	0.000
Disaster/Emergency	0.108	8.271	0.000	0.000	8.379	0.000
Miscellaneous Appropriations	0.000	3.749	10.334	10.562	3.749	20.896
Continuing Appropriations	0.000	9.380	0.000	0.000	9.380	0.000
Supplementals	0.000	0.000	0.000	0.000		
All Other Agencies	0.000	19.911	0.000	0.000	19.911	0.000
School Equalization Account	0.000	0.000	0.000	0.000	0.000	0.000
Feed Bill	0.000	4.691	0.000	4.808	4.691	4.808
Reversions	(2.669)	(2.500)	(2.500)	(2.500)	(5.169)	(5.000)
Anticipated Disbursements	$497.921	$634.972	$993.229	$988.461	$1,132.893	$1,981.690
Adjustments	7.545	0.372	(1.203)	(1.100)	7.917	(2.303
State Equalization Reversion	0.000	0.000	0.000	0.000	0.000	0.000
Residual Equity Transfer	1.476	0.980	8.675	3.521	2.456	12.196
Ending Fund Balance	$32.592	$41.132	$22.197	$21.759	$41.132	$21.759
Ending Cash Balance	$42.669	$51.208	$32.274	$31.836	$51.208	$31.836
Capital Projects Transfer	NA	$0.000	NA	NA	$0.000	NA

Table 5
Estimated School Equalization Account Balance
Figures In Millions

	Actual Fiscal 1994	Estimated Fiscal 1995	Estimated Fiscal 1996	Estimated Fiscal 1997	Estimated Fiscal 94-95	Estimated Fiscal 96-97
Beginning Fund Balance	$10.706	$17.109	$0.000	$0.000	$10.706	$0.000
Receipts						
Estimated Receipts	411.834	292.262	0.000	0.000	704.096	0.000
Total Available	$422.540	$309.371	$0.000	$0.000	$714.802	$0.000
Disbursements						
Current Level Schedules	271.766	267.313	0.000	0.000	539.079	0.000
Guaranteed Tax Base	128.575	136.643	0.000	0.000	265.218	0.000
Transportation Costs	3.908	3.914	0.000	0.000	7.822	0.000
OPI Administration	0.322	0.078	0.000	0.000	0.400	0.000
Telecommunications Network	0.177	0.223	0.000	0.000	0.400	0.000
SIMMS	0.500	0.500	0.000	0.000	1.000	0.000
Childrens Treatment	0.000	0.000	0.000	0.000	0.000	0.000
Bonus Payments	0.000	0.000	0.000	0.000	0.000	0.000
Other Costs	1.140	0.800	0.000	0.000	1.940	0.000
Anticipated Disbursements	$406.388	$409.471	$0.000	$0.000	$815.859	$0.000
Adjustments	0.957	1.186	0.000	0.000	2.143	0.000
Residual Equity Transfer	0.000	0.000	0.000	0.000	0.000	0.000
General Fund Transfer	0.000	98.914	0.000	0.000	98.914	0.000
Ending Fund Balance	$17.109	$0.000	$0.000	$0.000	$0.000	$0.000
Ending Cash Balance	$8.873	$0.000	$0.000	$0.000	$0.000	$0.000

COMPARISON TO 1995 BIENNIUM

This section summarizes legislative action in comparison to expenditures for the preceding biennium.

The legislature responded to an improved revenue outlook with adoption of a budget that calls for a significant increase in general fund and total state spending. General fund increases are funded primarily with existing sources of revenue, and the increased spending includes individual income tax and property tax rebates.

Although general fund expenditures increase over 8 percent, the largest increase is in federal funds (over 25 percent), primarily due to additional highways funding and federal grant and benefit increases (particularly for medicaid and education).

Comparisons

Tables 1 and 2 show a comparison of expenditures from the 1995 to 1997 biennium for general fund and total funds. As shown in the tables, the largest increases are in human services, corrections, education, and tax rebate measures.

The tables are divided into three sections[1]:

1) The top part of the table includes all apprοriations made in HB 2 (the general appropriations act).

2) Because HB 2 does not include all appropriations made by the legislature, the second part of the table includes additional appropriations made. This section is referred to as "Comparable Adjustments", as they are adjustments that can be compared from one biennium to the other. The total shown in the "Total Leg. Budget Fiscal 96-97" (1997 biennium) column represents all appropriations made by the legislature. However, the total in the "Total Fiscal 94-95" (1995 biennium) column does not represent all appropriations in that biennium, which are included in the next section.

3) The third section, "Noncomparable Adjustments" includes all 1995 biennium appropriations, including supplemental appropriations and disaster/emergency costs. Because 1997 biennium expenditures will most likely occur in this category, but cannot be estimated, they are excluded from the comparable adjustments total. Consequently, the increase of 6.32 percent shown for general fund and 8.14 percent for total funds does not represent a true picture of potential growth between biennia.

<u>House Bill 2 Comparisons</u>

As shown in Table 1, general fund expenditures in House Bill 2 increase by $135.4 million, or 7.8 percent, over the 1995 biennium. Total funds (Table 2) increase by $432.6 million, or 11.0 percent. The largest increases are in human services benefits, corrections to meet the rising correctional population, highways construction due to additional state and federal revenue availability, and education. The increase of general fund appropriations for education is due to projected enrollment increases. The increase in total funds is due to these projections and to additional federal funds. However, this increase is overstated, as over $96 million of the federal funds increase is due to an accounting change. These adjustments are summarized in more detail in the "Appropriations Summary" narrative of this volume. An agency by agency description of all adjustments is included in the individual agency narratives in Volumes I and II of this report.

[1] 1995 biennium budget figures consist of actual fiscal 1994 adjusted expenditures and fiscal 1995 appropriations. The 1995 biennium totals have been adjusted for agency reorganizations, proprietary fund changes (HB 576) and earmarking/statutory appropriation changes (SB 83) to make them compatible with changes adopted by the legislature for the 1997 biennium. This comparison method follows the intent of "truth in budgeting" as stated in HB 7 (1993 special session). The emphasis is on using comparable levels of expenditure in each biennium, except as noted for "noncomparable" adjustments.

COMPARISON TO 1995 BIENNIUM

Table 1
General Fund Comparison
95 Biennium Versus Legislative Budget 97 Biennium

Agcy Code	Agency Name	Total Fiscal 94-95	Total Leg. Budget Fiscal 96-97	Difference 97 Biennium - 95 Biennium	% Change 95 Biennium to 97 Biennium
1101	Legislative Auditor	$2,566,515	$2,831,480	$264,965	10.32%
1102	Legislative Fiscal Analyst	1,619,761	1,619,934	173	0.01%
1104	Legislative Council	3,840,016	5,062,421	1,222,405	31.83%
1111	Environmental Quality Council	550,410	547,282	(3,128)	-0.57%
2110	Judiciary	10,838,601	11,699,831	861,230	7.95%
3101	Governors Office	4,676,273	5,222,103	545,830	11.67%
3201	Secretary Of States Office	108,742	74,609	(34,133)	-31.39%
3202	Commissioner Of Political Prac	250,011	705,828	455,817	182.32%
3401	State Auditors Office	3,562,039	4,185,929	623,890	17.51%
3501	Office Of Public Instruction	900,523,561	927,866,233	27,342,672	3.04%
4107	Crime Control Division	3,330,937	4,360,290	1,029,353	30.90%
4110	Department Of Justice	22,572,418	30,027,525	7,455,107	33.03%
5100	University System	215,472,715	214,344,217	(1,128,498)	-0.52%
5101	Board Of Public Education	217,721	232,837	15,116	6.94%
5113	School For The Deaf & Blind	5,075,167	5,738,108	662,941	13.06%
5114	Montana Arts Council	243,178	234,566	(8,612)	-3.54%
5115	Library Commission	2,119,804	2,788,133	668,329	31.53%
5117	Historical Society	2,639,182	2,641,064	1,882	0.07%
5201	Dept Of Fish, Wildlife & Parks	755,517	820,678	65,161	8.62%
5301	Dept Of Environmental Quality	2,023,712	4,304,085	2,280,373	112.68%
5401	Department Of Transportation	422,106	500,000	77,894	18.45%
5603	Department Of Livestock	798,096	955,417	157,321	19.71%
5706	Dept Of Nat Resources/Conservation	21,321,394	25,772,160	4,450,766	20.87%
5801	Department Of Revenue	40,147,421	44,710,635	4,563,214	11.37%
6101	Department Of Administration	7,500,986	6,785,551	(715,435)	-9.54%
6102	Appellate Defender	0	200,000	200,000	NA
6201	Department Of Agriculture	889,320	929,969	40,649	4.57%
6401	Department Of Corrections	74,178,924	103,706,963	29,528,039	39.81%
6501	Department Of Commerce	2,652,192	3,366,609	714,417	26.94%
6602	Department Of Labor & Industry	1,599,753	2,375,944	776,191	48.52%
6701	Department Of Military Affairs	3,903,570	4,298,091	394,521	10.11%
6901	Dept Of Health & Human Services	395,265,118	448,126,795	52,861,677	13.37%
	House Bill 2 Totals	$1,731,665,160	$1,867,035,287	$135,370,127	7.82%

Comparable Adjustments

	Total Fiscal 94-95	Total Leg. Budget Fiscal 96-97	Difference	% Change
Employee Pay Proposal	0	16,558,000	16,558,000	NA
Income Tax Refunds	0	16,378,000	16,378,000	NA
Residential Property Tax Refunds	0	15,000,000	15,000,000	NA
Personal Property Reimbursements	36,766,000	36,766,000	0	0.00%
Debt Service Costs	27,134,000	11,930,000	(15,204,000)	-56.03%
TRANS Costs	4,857,000	3,256,000	(1,601,000)	-32.96%
District Court Reimbursements	6,895,000	8,263,000	1,368,000	19.84%
Depository Banking Services	1,359,000	800,000	(559,000)	-41.13%
DUI Testing Equipment Costs	100,000	0	(100,000)	-100.00%
Miscellaneous Appropriations	3,749,000	5,896,000	2,147,000	57.27%
Continuing Appropriations	9,380,000	0	(9,380,000)	-100.00%
Legislative Session Costs	4,691,000	4,808,000	117,000	2.49%
One-Time Only Costs	14,145,000	0	(14,145,000)	-100.00%
Anticipated Reversions	(5,169,000)	(5,000,000)	169,000	-3.27%
Totals With Comparable Adjustments	$1,835,572,160	$1,981,690,287	$146,118,127	7.96%

Non Comparable Adjustments

	Total Fiscal 94-95	Total Leg. Budget Fiscal 96-97	Difference	% Change
Supplementals	19,911,000	0	(19,911,000)	-100.00%
Disaster/Emergency Costs	8,379,000	0	(8,379,000)	-100.00%
Totals With All Adjustments	$1,863,862,160	$1,981,690,287	$117,828,127	6.32%
Percent Change For Each $10 Million Adjustment			$10,000,000	0.54%

COMPARISON TO 1995 BIENNIUM

Table 2
All Fund Comparison
95 Biennium Versus Legislative Budget 97 Biennium

Agcy Code	Agency Name	Total Fiscal 94-95	Total Leg. Budget Fiscal 96-97	Difference 97 Biennium - 95 Biennium	% Change 95 Biennium to 97 Biennium
1101	Legislative Auditor	$5,300,470	$5,317,837	$17,367	0.33%
1102	Legislative Fiscal Analyst	1,619,761	1,619,934	173	0.01%
1104	Legislative Council	5,204,637	6,489,866	1,285,229	24.69%
1111	Environmental Quality Council	564,224	575,365	11,141	1.97%
1112	Consumer Counsel	1,873,230	2,033,863	160,633	8.58%
2110	Judiciary	11,976,258	14,950,020	2,973,762	24.83%
2115	Mt Chiropractic Legal Panel	20,840	28,000	7,160	34.36%
3101	Governors Office	5,337,399	10,225,564	4,888,165	91.58%
3201	Secretary Of States Office	108,742	74,609	(34,133)	-31.39%
3202	Commissioner Of Political Prac	250,011	705,828	455,817	182.32%
3401	State Auditors Office	4,479,309	5,156,525	677,216	15.12%
3501	Office Of Public Instruction	1,011,512,671	1,059,495,087	47,982,416	4.74%
4107	Crime Control Division	10,761,922	15,274,290	4,512,368	41.93%
4110	Department Of Justice	61,836,606	71,326,941	9,490,335	15.35%
4201	Public Service Regulation	4,183,587	4,082,477	(101,110)	-2.42%
5100	University System	404,112,482	445,629,193	41,516,711	10.27%
5101	Board Of Public Education	538,572	578,577	40,005	7.43%
5113	School For The Deaf & Blind	5,960,817	6,443,105	482,288	8.09%
5114	Montana Arts Council	1,455,789	1,643,390	187,601	12.89%
5115	Library Commission	4,168,013	6,625,702	2,457,689	58.97%
5116	Vocational Education Council	321,402	335,050	13,648	4.25%
5117	Historical Society	5,224,624	5,635,190	410,566	7.86%
5201	Dept Of Fish, Wildlife & Parks	64,815,632	73,821,119	9,005,487	13.89%
5301	Dept Of Environmental Quality	60,161,604	61,148,053	986,449	1.64%
5401	Department Of Transportation	637,829,348	704,205,262	66,375,914	10.41%
5603	Department Of Livestock	11,574,296	12,032,735	458,439	3.96%
5706	Dept Of Nat Resources/Conservation	45,149,743	49,107,082	3,957,339	8.76%
5801	Department Of Revenue	43,177,453	47,448,426	4,270,973	9.89%
6101	Department Of Administration	12,296,635	11,473,024	(823,611)	-6.70%
6102	Appellate Defender	0	200,000	200,000	NA
6103	State Compensation Ins. Fund	0	0	0	NA
6104	Public Employees Retirement Bd	2,242,975	2,509,783	266,808	11.90%
6105	Teachers Retirement Board	1,288,541	1,416,838	128,297	9.96%
6201	Department Of Agriculture	15,729,886	17,199,907	1,470,021	9.35%
6401	Department Of Corrections	78,269,215	108,579,837	30,310,622	38.73%
6501	Department Of Commerce	91,228,688	90,846,003	(382,685)	-0.42%
6602	Department Of Labor & Industry	76,971,736	79,059,679	2,087,943	2.71%
6701	Department Of Military Affairs	12,839,541	14,549,524	1,709,983	13.32%
6901	Dept Of Health & Human Services	1,234,056,247	1,429,280,885	195,224,638	15.82%
	House Bill 2 Totals	$3,934,442,906	$4,367,124,570	$432,681,664	11.00%

Comparable Adjustments				
Employee Pay Proposal	0	35,678,951	35,678,951	NA
Income Tax Refunds	0	16,378,000	16,378,000	NA
Residential Property Tax Refunds	0	15,000,000	15,000,000	NA
Statutory Appropriations	1,085,617,469	1,061,654,502	(23,962,967)	-2.21%
Miscellaneous Appropriations	3,749,000	12,047,361	8,298,361	221.35%
Continuing Appropriations	9,380,000	0	(9,380,000)	-100.00%
Legislative Session Costs	4,691,000	4,808,000	117,000	2.49%
One-Time Only Costs	14,688,742	0	(14,688,742)	-100.00%
Anticipated Reversions	(5,169,000)	(5,000,000)	169,000	-3.27%
Totals With Comparable Adjustments	$5,047,400,117	$5,507,691,384	$460,291,267	9.12%
Non Comparable Adjustments				
Budget Amendments	8,507,913	0	(8,507,913)	-100.00%
Supplementals	28,901,000	0	(28,901,000)	-100.00%
Disaster/Emergency Costs	8,379,000	0	(8,379,000)	-100.00%
Totals With All Adjustments	$5,093,188,030	$5,507,691,384	$414,503,354	8.14%
Percent Change For Each $10 Million Adjustment			$10,000,000	0.20%

Note : Comparisons do not include disbursements for Long-Range Building projects.

COMPARISON TO 1995 BIENNIUM

Total Comparable Expenditures

Total comparable expenditures include all miscellaneous appropriations (including tax rebates, the employee pay plan bill, and other appropriations bills), statutory appropriations, and other expenditures and adjustments. The legislature approved $146.1 million increased general fund expenditures for the 1997 biennium as compared to the 1995 biennium, or an increase of 8.0 percent. The increase in total state fund spending over comparable 1995 biennium spending is $460.1 million, or 9.1 percent. While comparable expenditures rise slightly from the HB 2 level for general fund (primarily due to the state employee pay plan and all tax refunds), total fund growth actually declines. This decrease is due to the net of additions for the state pay plan and income and property tax refunds, offset by a decrease in statutory appropriations, primarily due to lower debt service costs.

All Appropriated Expenditures

"Noncomparable Adjustments" show an increase of 6.32 percent general fund and 8.14 percent total funds between biennia. However, as stated earlier, this comparison tends to be distorted by the lack of comparable information in the 1997 biennium. This section and these comparisons are shown for informational purposes and to complete the listing of 1995 biennium expenditures.

COMPARISON TO THE EXECUTIVE

The following table compares legislative action in House Bill 2 to the Executive Budget (as published). A discussion of the major differences follows the table. This discussion is divided into several parts: 1) accounting/budgeting changes made and double appropriations removed by the legislature; 2) major policy initiatives proposed by the executive; 3) legislative policy initiatives not included in the Executive Budget; and 4) federal funds rejected. All differences from the executive are discussed in more detail within the individual agency narratives in Volumes I and II of the Legislative Fiscal Report.

Table 1
Difference Between Legislative Action and Executive Budget
House Bill 2 -- 1997 Biennium

Category	General Fund	Total Funds
Executive Budget (Published)	$1,054.8	$3,913.2
Legislative Action	1,867.0	4,367.1
Difference	$812.2	$453.9
Accounting/Budgeting Changes*	$826.7	$613.6
Double Appropriations	0.0	(124.4)
Executive Initiatives	(36.8)	(29.6)
Legislative Initiatives	(0.6)	38.0
Rejected Federal Funds	0.0	(31.6)
Miscellaneous Remaining Differences	22.9	(11.4)

*Includes additional appropriations for school equalization payments, including the net of the $6.1 million reduction from the executive request due to revised enrollment projections.

Accounting/Budgeting Changes and Double Appropriation Eliminated

Several major changes were made by the legislature that resulted in accounting or budgeting differences, rather than policy differences, with the executive. As stated earlier, HB 576 removed almost $213 million of proprietary funding included in the Executive Budget. SB 83 changed the funding categorization of several state special revenue accounts to general fund, resulting in an increase of over $24 million general fund and a reduction of a like amount of state special revenue over the biennium. SB 83 also required the appropriation of funds in HB 2 that had been statutorily appropriated in prior biennia, adding almost $583 million general fund and $0.5 million other funds over the biennium, including over $580 million for school equalization account (SEA) payments. (This category also includes $245 million of general fund added to supplement these school equalization expenditures. The executive had not included this supplement in HB 2.) The legislature also eliminated over $110 million of highways state special revenue from the Montana Department of Transportation (MDT) and $14.3 million of accommodations tax from the Department of Commerce that had been double appropriated. The executive had not included any of these changes.

In addition to the increase of $580 million due to SB 83, the remaining funding of $245 million for the SEA was added to HB 2. The executive had not budgeted any SEA costs in HB 2.

Executive Policy Issues

The Executive Budget included a number of policy issues in HB 2 for consideration by the legislature. In addition to HB 2 issues, this section briefly discusses legislative action on the executive's proposed pay plan, and long-range building program, neither of which are included in HB 2.

Human Services/Law Enforcement - The executive proposed increased funding for additional corrections beds and expanded community corrections programs. The legislature, with minor exceptions, included funding for all prison and community corrections expansions requested, although the Swan River Boot Camp was not expanded to the level proposed by the executive. The executive also proposed increased general fund for "children and families in crisis", including Managing Resources Montana (MRM) for seriously emotionally disturbed youth. While the legislature increased funding for MRM, the executive had funded the program at $4.5 million more than the level approved by the legislature. The legislature did not fund several other executive initiatives in this area, including community impact grants of $8.2 million.

The legislature reduced the executive medicaid level by $33.3 million ($7.8 million general fund) due to revised executive estimates. The

legislature accepted the executive proposal for welfare reform and managed care, including the addition of $21 million of state special revenue authority to expend funds anticipated from private contractors. This addition was not included in the published Executive Budget. The legislature also accepted the executive's proposal to change the youth programs that were housed at Mountain View School to a wilderness camp. (The executive proposed and the legislature accepted housing the law enforcement academy on the campus of Mountain View School.) However, the proposal to close the Eastmont Human Services Training Center and build and staff additional group homes was not accepted.

Higher Education - the legislature did not include $7.1 million of general fund proposed by the executive, but provided an additional $19.9 million of tuition authority. The general fund appropriation approximates the 1995 biennium level, while the tuition appropriation allows the university system to enroll more students (particularly nonresidents) than anticipated by the executive.

K-12 Education - Due to enrollment increases, the executive proposed an additional $30.5 million for K-12 school equalization aid using existing statutory funding formulas. Revised enrollment projections reduced this increase by $6.1 million. (This difference is included in the "Accounting/Budgeting Changes" category in Table 1.)

Funding Switches - The legislature did not transfer funding of the Forensics Unit, the Motor Vehicle Division, or certain vocational rehabilitation activities to the general fund from current state special revenue sources. However, the legislature did replace Resource Indemnity Trust (RIT) interest in various environmental programs, and liquor revenues in other programs, with general fund. The legislature replaced $6.3 million of general fund with child support and county revenue in the Department of Public Health and Human Services, neither of which had been included in the Executive Budget. The legislature did not fund $4.7 million in coal board grants requested by the executive. Under current law, these funds are deposited to the school equalization account (under SB 83, which de-earmarked this account, the funds will be deposited to the general fund) at the end of the biennium.

Pay Plan - The legislature funded the executive pay plan, and added funds to provide salary increases for elected officials. For a further discussion, see the "State Employee Pay Plan" section of this volume. However, the legislature did not endorse the executive guaranteed annual benefit adjustment (GABA) for employee pension plans.

Long-Range Building - The executive proposed several major building projects in the 1997 biennium that contributed to the largest proposed building program in the state's history. The legislature for the most part adopted the executive proposals. However, the legislature did not agree to assume debt to finance improvements to the State Capitol to the extent proposed by the executive, and reduced the total funding available for regional jails. The legislature did accept the executive proposals to move the law enforcement academy to Helena and upgrade the Montana State Hospital campus. The legislature also agreed to divert coal tax revenues that had been deposited to the highways state special revenue account on a temporary basis to building projects. For a further discussion of the long-range building program, please see Section F in Volume II of the Legislative Fiscal Report.

Legislative Policy Issues

The legislature undertook several policy initiatives not included in the Executive Budget. The major additions include almost $34 million state and federal funds for highways projects, $4.3 million federal funds for the Community Services (Americorps) program (these funds were statutorily appropriated in the Executive Budget), and child support enhancement. The legislature reduced medicaid by $7.5 million in anticipation of additional savings. The legislature also added about $5 million ($1.0 million general fund) to implement other legislation passed. This total includes the net of reductions, including 32.08 FTE, anticipated as a result of the reorganization of human services and natural resource agencies.

COMPARISON TO THE EXECUTIVE

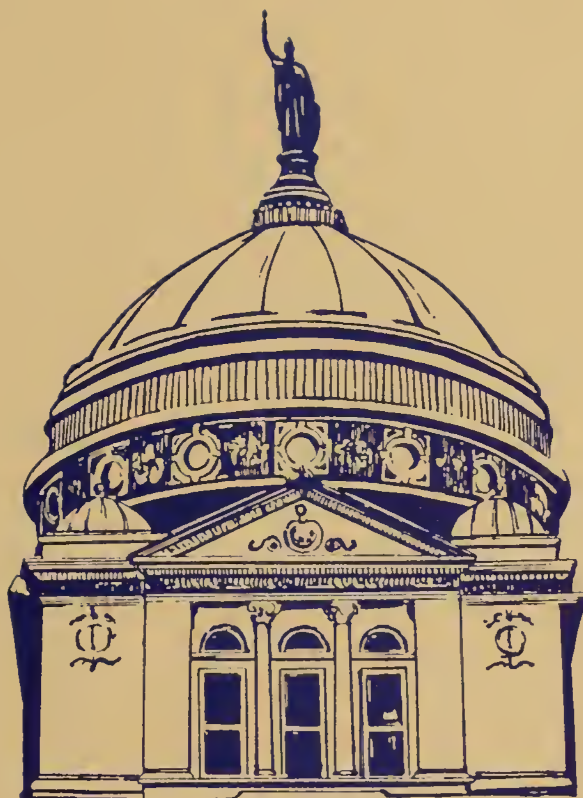
The executive had not included any of these funds, although the administration may have supported some of the legislation. In addition to the reductions in executive branch FTE, the legislature reduced its legislative staff by 12.75 FTE.

Federal Funds Rejected

The legislature specifically rejected $20.8 million in federal funds requested in the Executive Budget, including: 1) $6.6 million of "Goals 2000" funding for local school districts; 2) $8.2 million in proposed new environmental programs in the former Department of Health and Environmental Sciences; 3) $1.9 million in rejected medicaid new proposals; and 4) various new proposals in the Department of Fish, Wildlife and Parks totaling $2.8 million. The additional federal funds eliminated were various new proposals not funded or present law decreases. (In addition, $0.3 million for federal "Brady Law" enforcement requested by the Department of Justice was rejected.) The executive had also requested an additional $10.8 million in federal funds that were later withdrawn due to non-availability of the funds.

However, the legislature added about $25 million of federal fund not requested by the executive, including about $23 million for highways projects.

COMPARISON TO THE EXECUTIVE



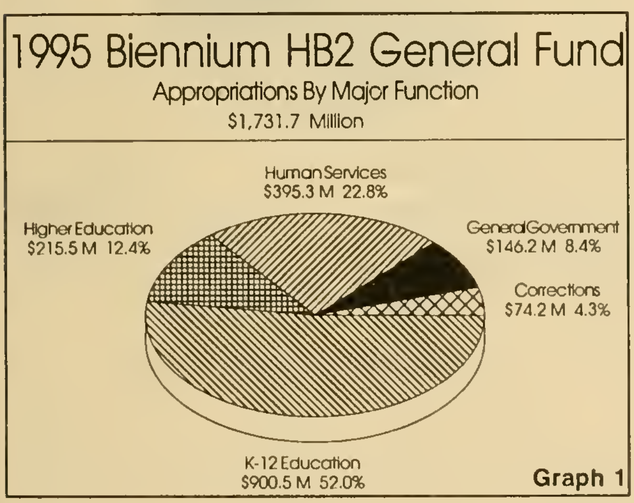
APPROPRIATIONS SUMMARY

APPROPRIATIONS SUMMARY

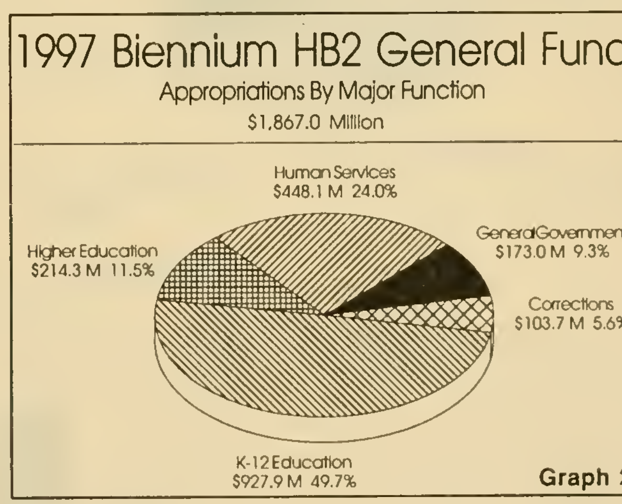
Total general fund appropriations in HB 2 increase by $135.4 million over the biennium, or 7.8 percent. almost 40 percent of this increase occurs in human services programs. Total funds increase by $432.7 million, or 11 percent. As with general fund, human services receives the largest share of this increase.

The following graphs show the change in distribution of House Bill 2 expenditures between the 1995 and 1997 biennia, by function. The graphs also show the distribution of the total percentage share of all general fund increases appropriated by the legislature. (Included in human services is all functions currently performed by the new Department of Public Health and Human Services.) The graphs show a shift in state expenditure emphasis from education to human services and corrections. The graphs show that the majority of state general fund expenditures are directed to education. However, the graphs also show that, while the total general fund allocated to K-12 education increases (due to increases in projected enrollment), education's percentage share of the total general fund budget decreases from a total of 64.4 percent to a total of 61.2 percent. The total dollar increase represents only a 2.3 percent overall increase, compared to a total state general fund increase of 7.8 percent. At the same time, the share consumed by human services and corrections increases from 27.1 percent to 29.6 percent while showing an increase in expenditures of 23 percent, or 60.9 percent of the total general fund increase.

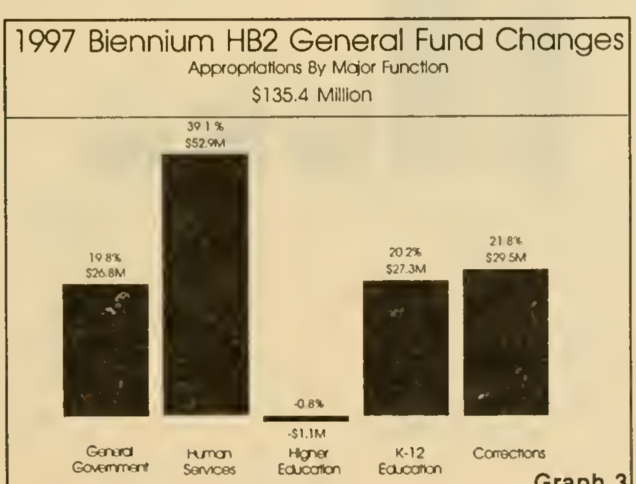
Because general government expenditures grew at a higher rate than expenditures in total, this function's share of total general fund also increases. This increase is due to a number of factors over a number of agencies, including additional law enforcement expenditures in the Department of Justice.



Graph 1

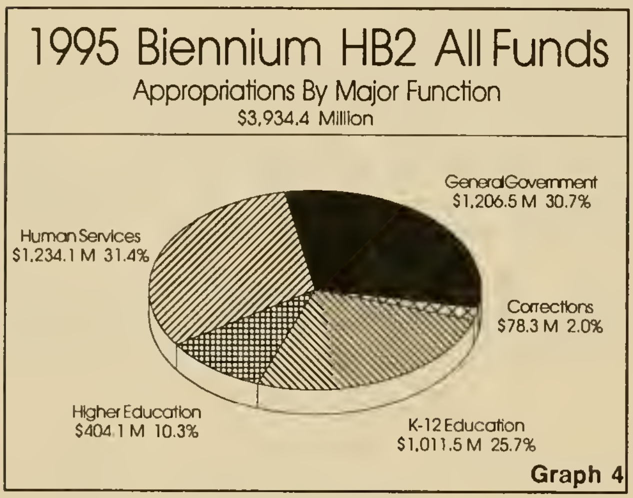


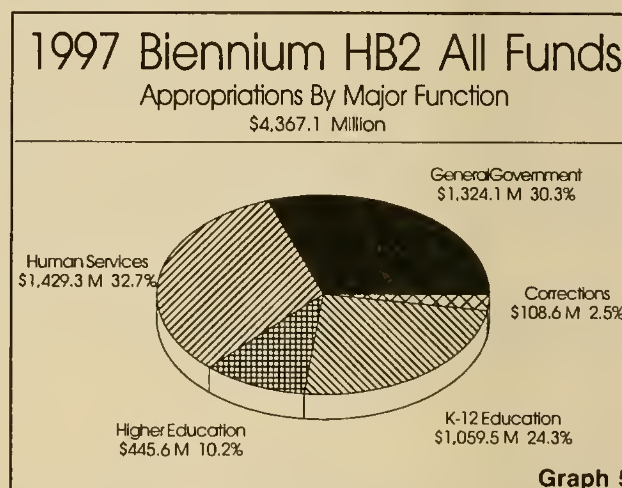
Graph 2

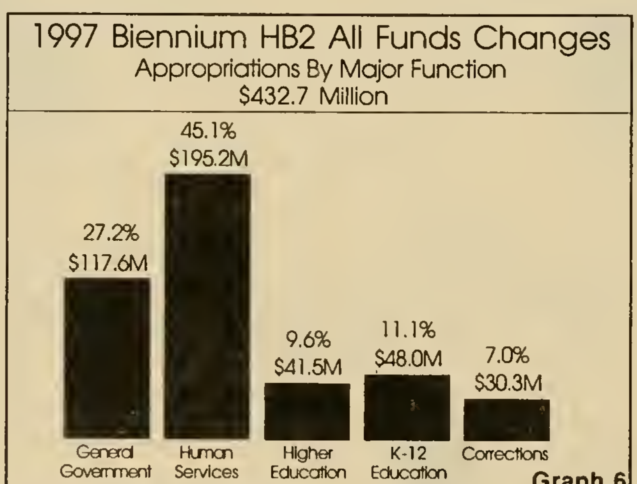


Graph 3

Total funds also show a shift in emphasis of state expenditures. Education and general government are reduced from 36.0 percent to 34.5 percent and from 30.7 percent to 30.3 percent of total funds, respectively. At the same time, the share of the budget devoted to human services and corrections increases from 33.4 percent to 36.2 percent. These functions consume over 52 percent of the increase in total funds appropriated in HB 2. It should be noted that the general government share of expenditures shows an artificially low increase due to the elimination of double appropriations in the Montana Department of Transportation of over $110 million. (Because this adjustment was for accounting purposes only, it has no impact on the level of operations.) Construction projects over the biennium increase by about $115 million.







The following provides additional information on the increases in human services and corrections, as well as a discussion of changes in the higher education appropriation. K-12 education is discussed in more detail under "Public School Funding" in this volume.

Human Services and Corrections

Public Health and Human Services

Appropriations for the Department of Public Health and Human Services (PHHS) increased $195.2 million ($52.8 million general fund) from the 1995 biennium to the 1997 biennium, accounting for nearly half (45.1 percent) of the total increase in HB 2 appropriations and over one-third (38.9 percent) of the general fund appropriation increase. Benefit appropriations grew $140.7 million total funds ($43.5 million general fund) between the biennia, accounting for the majority of the change in PHHS appropriations.

Medicaid benefits increased $90.5 million total funds ($34.5 million general fund) from the 1995 biennium to the 1997 biennium. Medicaid growth accounted for 21 percent of the total HB 2 increase and 25.5 percent of the general fund increase between the biennia. Medicaid appropriations increased due to: 1) a higher utilization of medical services; 2) medical cost inflation and provider rate increases; and 3) a higher number of aged, blind, and disabled recipients.

The legislature added $20.8 million state special revenue in fiscal 1997 to implement the executive mental health managed care proposal. That adjustment, which accounted for 10.7 percent of the increase in total PHHS appropriations, represents spending authority only, and is not an expansion of services.

Total medicaid benefits increased at an average annual compounded rate of 6.9 percent from the fiscal 1994 base to the fiscal 1997 appropriation, while the general fund portion of medicaid benefits rose at an average annual rate of 11.5 percent. General fund increased faster than federal funds for two reasons: 1) the state match rate increased by 2 percent from the base to fiscal 1997; and 2) SB 83 de-earmarked nursing home bed tax revenues, reducing state special revenue by $13.3 million and increasing general fund by the same amount over the 1997 biennium.

Department of Corrections

The legislature increased the Department of Corrections (DOC) 1997 biennial budget by $30.3 million over the biennium. Of this increase, $29.5 million or 97 percent is general fund. This increase is primarily attributable to the escalating population in the correctional system.

The legislature authorized approximately $20 million in general fund to provide services to members of the correctional population, either directly or indirectly. Over $13 million of this increase expands: 1) community corrections programs, including probation and parole officers, pre-release center beds and staff and beds at Swan River Correctional Training Center; 2) medical, chemical dependency, and sexual offender treatment services for inmates; and 3) hard cell capacity, including 80 beds at the old forensic unit on the Montana State Hospital campus and regional jails for additional capacity. The legislature also provided general fund for correctional officers, equipment, and services within the institutions.

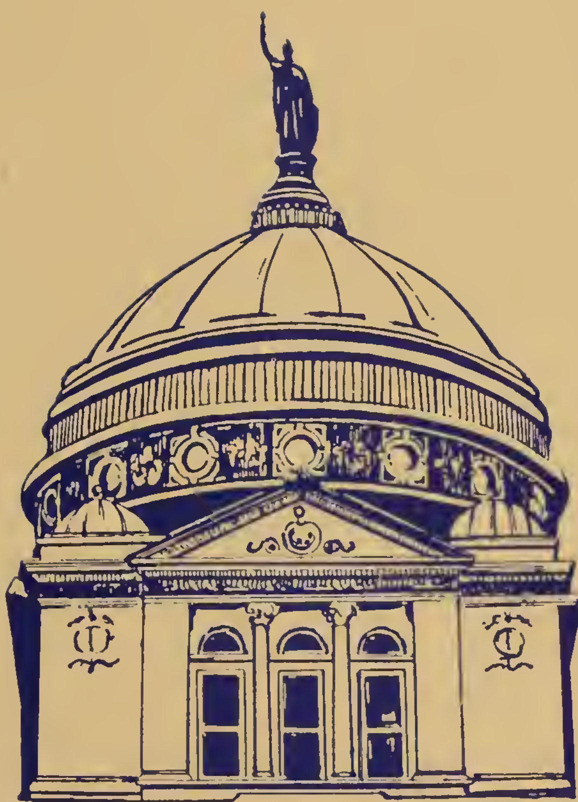
Almost $8 million of the biennial increase is due to foster care benefits appropriated for Juvenile Corrections.

Higher Education

The legislature increased total spending authority for the university system by $41.5 million, a 10.3 percent increase from the 1995 to the 1997 biennium. The increase is primarily the net result of: 1) general fund decreases of $1.1 million; 2) mill levy revenue decreases of $3.7 million (a one-time fund balance was expended in fiscal 1994); 3) tuition increases of $44.0 million resulting from increased tuition rates and enrollment increases from fiscal 1995 of nearly 1,100 students in fiscal 1996 and over 1,800 students in fiscal 1997; and 4) a federal Perkins vocational educational funds increase of $1.7 million. General fund and millage per resident student at the colleges of technology and the six university units decreased from an average of approximately $4,300 during the 1995 biennium to approximately $4,000 in the 1997 biennium. In the same period, state support plus tuition per student rose from approximately $5,600 to nearly $6,000. For additional detail, see the University System narrative in Section E, Volume II of this publication.

Highways

As stated earlier, the legislature provided a significant increase in highways spending authority. Federal and state special revenue was increased by about $115 million over the biennium to fund additional construction projects.



TAX POLICY AND INITIATIVES

TAX POLICY AND INITIATIVES

Summary

The Fifty-fourth Legislature passed several tax policy initiatives which will affect state and local government revenue during the 1997 biennium. In total, nine of the twelve tax policy bills reduce revenues by $30.6 million and two bills increase appropriations by $31.4 million during the 1997 biennium. Two bills will increase revenue to the general fund by $5.2 million and to the state special revenue by $.6 million during the 1997 biennium.

The fiscal impact of the tax policy legislation and fee increases on the state general fund is shown in Table 1. Following the table is a discussion of the tax policy legislation.

Table 1
Tax Policy Legislation
General Fund Impact

	Fiscal 1996	Fiscal 1997	Biennium
Property Tax			
HB497 - Low Income Property Tax Relief *	0.000	(0.556)	(0.556)
HB497 - Property Tax Rebate for Value Increases > 15%	(7.500)	(7.500)	(15.000)
SB417 - Business Property Tax Reduction	(3.952)	(14.352)	(18.304)
Total	(11.452)	(22.408)	(33.860)
Income Tax			
HB171 - Refund Excess Income Taxes	(16.378)	0.000	(16.378)
HB202 - Establish Insurance Premium Deduction	(1.520)	(1.671)	(3.191)
HB209 - Establish Minimum Standard Deduction	0.000	(0.520)	(0.520)
HB497 - Homeowner Renter Credit Expansion	(0.660)	(0.715)	(1.375)
HB560 - Exempt Medical Care Savings Accounts	0.000	(3.100)	(3.100)
Total	(18.558)	(6.006)	(24.564)
Oil & Gas Tax			
HB090 - Exempt 1st 3 barrels from St Severance Tax	(0.973)	(0.991)	(1.964)
HB418 - Increase Privilege & License Tax **	0.000	0.000	0.000
SB338 - Exempt from St Severance 1st 2 years	(0.391)	(0.873)	(1.264)
SB412 - Consolidate Oil & Gas Taxes ***	5.114	0.112	5.226
Total	3.750	(1.752)	1.998
Coal Severance tax			
HB343 - Exempt coal used in enhancement process	(0.141)	(0.140)	(0.281)
Rail Car Tax			
SB 257 - Revise Rail Car Tax ****	0.000	0.000	0.000
Fee Increases	31.585	34.685	66.271
Grand Total	5.184	4.379	9.564

* Local Gov't Impact for 1997 biennium will be loss of $1.765 million
** Increase of $.61 million deposited in special revenue account for use by Board of Oil & Gas Conservation
*** The total one time acceleration of taxes for state and local governments is $18.5 million
**** Passed by Legislature; Vetoed by Governor

Property Tax Legislation

House Bill 497 expands property tax relief for low income property owners and for elderly homeowners and renters. In addition, HB 497 establishes a two-year program to reimburse residential property owners whose residences increased in value by 15 percent or more during the reappraisal conducted in tax year 1993.

- Low Income Tax Relief - Under current law, single and married homeowners are eligible for reductions in property taxes on the first $80,000 in home market value if they meet certain income requirements. The extent of the reduction in property taxes varies inversely with income, with some very low income taxpayers eligible for total property tax relief. Married taxpayers with incomes up to $16,214 in calendar 1994 were eligible for some relief, with single taxpayers eligible if incomes did not exceed $13,512. These income limits increase with inflation. The taxpayer must live in the residence for at least ten months of the year.

- HB 497 expands the income eligibility limits for the low income property tax exemption and collapses the number of tax relief brackets from ten to three. The new limits, set to take effect in fiscal 1997, allow some relief for married couples with incomes up to $20,000 and up to $15,000 for single taxpayers.

  The low-income tax relief provisions in HB 497 also 1) raises the amount of market value eligible for property relief from $80,000 to $100,000; 2) change the number of months in which a taxpayer must reside in the residence receiving the relief from ten months to seven months; and 3) delay the relief application date from March 1 to March 15. The changes in the low-income tax relief will affect tax years beginning after December 31, 1995. The total reduction in property taxes as a result of HB 497 is expected to be $2.356 million in fiscal 1997. Of this amount, the state will experience a reduction in property revenue of $.556 million and $.035 million from the statewide 95-mills and the six-mill university levy, respectively.

- Residential Property Tax Relief - Homeowners with homes that increased in value by more than 15 percent due to reappraisal between January 1, 1992 and January 1, 1993 will be eligible for a refund for property taxes paid in excess of the 15 percent increase. Homeowners must have lived in the qualifying residence for at least seven months of the year. HB 497 contains general fund appropriation authority of $7.5 million per year for fiscal 1996 and fiscal 1997 for the homeowners tax refunds. Eligible property owners will receive their relief checks in November, 1995 and November, 1996.

Senate Bill 417 revises the tax rate applicable to class 8 business property from 9 percent to 6 percent. The reduction in tax rates is phased in over three years, dropping 1 percent per year beginning in tax year 1996, reaching 6 percent in tax year 1998. The loss in revenue to counties, schools, and cities in fiscal years 1996 through fiscal 1999 will be reimbursed by the state. The reimbursements beyond fiscal 1999 will be phased out at the rate of 10 percent per year, and after fiscal 2009 no further reimbursements will be made. Also beginning in fiscal 2000, SB 417 phases out personal property tax reimbursements authorized by HB 20, which was passed by the 1989 legislature. The phase-out of HB 20 reimbursements will also be conducted over ten years.

TAX POLICY AND INITIATIVES

In fiscal 1995, property tax revenue from personal property for all governments totaled $85.9 million[1]. As a result of the reduction in the personal property tax rate, the tax rate applied to class 12 property, i.e., railroad and airline property, will also be reduced since the class 12 rate depends on the class 8 rate. Total property tax revenue for all governments in fiscal 1995 from class 12 property was $20.7 million. Revenue from these two classes accounted for 15.0 percent of all property tax revenue for all taxing jurisdictions. When the reduction in revenue from these sources is fully phased-in in fiscal 1999, this reduction will be equal to 5.0 percent of all property tax revenue for all taxing jurisdictions.

Table 2 below shows the impact of SB 417 on state property tax revenues, and the reimbursement amounts for local governments, through fiscal 1999, before the reimbursement phase-out begins. In tax year 1996, the tax rate on class 8 property will drop from 9 percent to 8 percent. For personal property liened to real property, the tax liability reduction will take place on tax payments which occur in November, 1996 and May, 1997; i.e., in fiscal 1997. However, approximately 38 percent of all personal property is not liened to real property, and under current rules tax payments on non-liened property for tax year 1996 take place in April, 1996, based on the previous year mill levy. Thus, the reduction in the tax rate applied to property for tax year 1996 will result in revenue reductions in both fiscal 1996 and 1997.

Table 2
Revenue Impact of SB417
By Taxing Jurisdiction, 1997 Biennium and 1999 Biennium

Taxing Jurisdiction	FY96	FY97	1997 Biennium	FY98	FY99	1999 Biennium
State (Unversity Levy)	$68,828	$249,955	$318,784	$431,083	$543,381	$974,464
State (Welfare Levy)	31,810	115,520	147,329	199,230	251,130	450,359
State (Statewide Levy - 40 Mills)	458,860	1,666,387	2,125,248	2,873,914	3,622,581	6,496,495
State (Co. Equalization - 55 mills)	630,931	2,291,277	2,922,209	3,951,623	4,981,038	8,932,661
County Government *	818,850	2,973,718	3,792,568	5,128,586	6,464,604	11,593,189
School Governments *	1,743,416	6,331,353	8,074,769	10,919,290	13,763,811	24,683,101
Cities *	199,320	723,847	923,168	1,248,375	1,573,581	2,821,956
Total	$3,952,016	$14,352,058	$18,304,074	$24,752,100	$31,200,126	$55,952,226

* Reimbursed by state

Reimbursements for foregone revenue due to SB 417 will be made to county governments, incorporated city and town governments, consolidated county and city governments, tax increment financing districts, local elementary and high school districts, local community college and vocational technical center districts, miscellaneous districts, and special districts. State accounts will not be reimbursed for reductions in the statewide 40-mill levy, the county equalization 55-mill levy, the university six-mill levy, nor the twelve county welfare nine-mill levy. Reimbursements to local taxing jurisdictions will be made when the amount of foregone revenue, as calculated by the Department of Revenue, is deducted from the amount of the statewide levy owed by each local jurisdiction. Each taxing jurisdiction will send the state a reduced amount in statewide levy revenue in November and May of each fiscal year.

[1] This does not include property described in section 15-6-138, MCA that has a reduced tax rate under section 15-6-1402, MCA. Personal property with a reduced tax rate generated approximately $3.6 million in fiscal 1995.

The reimbursement calculation for each taxing jurisdiction will not include growth in taxable value beyond the taxable value existing in tax year 1995. In addition, the reimbursement calculation will not include growth in revenue due to increases in local mill levies.

Reimbursements in fiscal years 2000 through fiscal 2009 will be phased out. Total reimbursements to local governments are expected to be $39.1 million in fiscal 1999 and will be reduced by approximately $3.9 million per year over the next ten years. HB 20 reimbursements to local taxing jurisdictions will be $10.7 million in fiscal 1999 and will be reduced by $1.07 million per year for the ensuing ten years.

Income Tax Legislation

House Bill 171 authorizes a statutory appropriation to refund income taxes to taxpayers. The refund is the amount of unreserved fund balance in the general fund which exceeds $24.4 million at the end of fiscal 1995. The refund is to be returned to taxpayers who filed a tax return for tax year 1994. If the amount of unreserved fund balance which exceeds $24.4 million does not equal at least $10 million, then the refund may not be made. The refund for each taxpayer may not exceed $1,000 and must be at least $10. The refund is calculated by multiplying a percentage determined by the Department of Revenue times the tax year 1994 income tax liability. The percentage determined by the department is the ratio of the amount available for refund divided by total tax year 1994 tax liability, adjusted by the upper and lower refund limits, of those taxpayers eligible for the refund. Refunds to individual taxpayers will be mailed in November, 1995. It is expected that $16.378 million will be distributed in income tax refunds. The bill contains an appropriation for $300,000 from the general fund to the department for administration and mailing costs.

House Bill 202 allows a deduction from adjusted gross income for one-half of medical premiums paid during the tax year. Under current law, all medical premiums contribute toward medical expenses which are deductible to the extent they exceed 7.5 percent of Montana adjusted gross income. The new deduction will allow one-half of medical insurance premiums to be deducted. Under the new law, the remaining one-half of medical insurance premiums can be used to contribute to deductible medical expenses subject to the 7.5 percent floor. The new medical insurance deduction will be available for tax year 1995 and will affect income tax revenues in both years of the 1997 biennium. Income tax revenues are expected to be reduced by $3.191 million during the 1997 biennium.

House Bill 209 provides an inflation-adjusted minimum standard deduction for all income taxpayers. Under current law, the standard deduction is the lesser of 20 percent of adjusted gross income or a maximum amount depending on the taxpayer's filing status. HB 209 retains this structure for the standard deduction but sets a lower dollar limit on the amount of the standard deduction. In tax year 1996, the first year in the which the minimum standard deduction will become operative, the minimum standard deduction will equal approximately $1,270 for single and married taxpayers filing separately and $2,540 for heads of household and for married taxpayers filing jointly. HB 209 will reduce income tax revenues by $.52 million per year in fiscal 1997 and beyond.

House Bill 560 provides for an exclusion from Montana adjusted gross income of funds contained within a medical care savings account and for funds withdrawn from that account for eligible medical expenses or for long-term care. Individuals or employees may deposit any amount in a medical care savings account for use by the individual or his/her dependents. Up to $3,000 per year of these deposits may be excluded from adjusted gross income. The account holder may use the amount in the account only for qualified medical expenses or for long term care, although the entire amount in the account need not be withdrawn. There is no limitation on the amount of funds and interest or other income on these funds that may be retained tax-free in an account. HB 560 will become effective in tax year 1996 and will reduce income tax collections in fiscal 1997 by $3.1 million per year.

Senate Bill 497 expands the elderly homeowner/renter credit. Under current law, homeowners who are at least 62 years old and have a household income of less than $12,000 may receive an income tax credit for property taxes paid on their homestead. Renters meeting the same criteria may also claim the credit for rent-equivalent property taxes paid. The amount of the credit decreases with income and the maximum credit allowable is $400 per year. Beginning in tax year 1995, HB 497 increases the maximum allowable

credit to $1,000. State income tax revenues are expected to decline by $1.375 million during the 1997 biennium as a result of this provision in HB 497.

Oil and Gas Tax Legislation

Throughout 1994, Department of Revenue staff met with county and school administrators and representatives from oil and natural gas companies to achieve consensus on how the system of oil and gas taxation might be altered. The goals of the meetings were to simplify the tax system as applied to oil and natural gas while maintaining, as a whole, revenue neutrality for tax collecting governments and tax liability neutrality for tax paying companies. This work resulted in the passage of Senate Bill 412.

SB 412 establishes a new oil and natural gas production tax which revamps the taxation of oil and natural gas by: 1) consolidating the number of tax rates applied to oil and gas production; 2) simplifying the tax return process; and 3) accelerating the collection of the Local Government Severance Taxes (LGST) so that the timing between resource and extraction and the collection of the LGST corresponds with other taxes applied to oil and natural gas. SB 412 applies to resource extraction beginning in calendar 1996.

The simplification of oil and gas taxation envisioned by the sponsors of SB 412 was compromised by the passage of three bills also affecting oil and gas taxation. The following summary of SB 412 includes a description of the new tax law as applied to oil and gas production as modified by HB 90, which establishes an exemption from the state severance tax for the first three barrels of oil per day if produced by stripper wells; HB 418, which increases the oil and gas privilege and license tax (P&L) from 0.2 percent to 0.3 percent; and SB 338, which establishes a 24-month holiday from the state severance tax for oil and gas produced after March 31, 1995.

Consolidated Current Law Tax Rates

The tax system replaced by HB 90, HB 418, SB 338, and SB 412 contained four major types of taxes, each having unique rules regarding tax filing dates, tax rates, exemptions, and distribution methods that depended on whether the resource was extracted from old wells or new wells. Old oil and gas wells (drilled prior to July 1, 1985) were subject to the state severance tax, the LGST, the Resource Indemnity and Groundwater Assessment tax (RIGWA) and the P&L Tax. New oil and gas wells (drilled after July 1, 1985 or wells that have not been in production for at least five years) were subject to the state severance tax, the net proceeds tax, the RIGWA tax and the P&L Tax. Table 3 provides a summary of current law provisions regarding the taxation of oil and gas production.

Table 3
Current Law Oil and Natural Gas Tax Provisions

Tax/Resource	Tax Rates (Percent)	Exemptions	Distribution & Distribution Dates	Payment & Return Deadlines	Treatment of Royalties	Stripper Rates **
Net Proceeds *		First 12 months of production for oil and gas; first 18 months for horizontal oil wells; tribal royalties; royalties received by governments	Received by county treasurer, distributed on basis of mills in previous fiscal year; distributed to taxing jurisdictions in November and May	Return and payment due quarterly last day of Oct, Jan, Apr, May	Oil = 7.0 % Gas = 12.0 % Same exemptions as working interest	No special rules for stripper wells
Oil						
Primary	7.00					
Secondary	5.00					
Tertiary	3.30					
Horizontal	7.00					
All Natural Gas	12.00					
LGST *		Tribal royalties; royalties received by governments	Received by county treasurer and sent to state; redistributed to taxing jurisdicdictions on basis of levies in fiscal 1990; distributed in November and May	Return due 60 days after end of calendar quarter; payment due one year after return	Oil = 12.5 % Gas = 15.25 %	Oil = 5 % Gas = 10 %
Oil						
Primary	8.40					
Secondary	5.00					
Tertiary	3.30					
Horizontal	8.40					
All Natural Gas	15.25					
State Severance		First 30,000 cubic feet per day if gas stripper; tribal royalties; royalties received by governments	Collected by state; deposited in state general fund	Return and payment due 60 days after end of calendar quarter	Same as working interest	Gas = 1.59 % on second 30,000 cubic feet per day
Oil						
Primary	5.00					
Secondary	3.00					
Tertiary	2.00					
Horizontal	5.00					
All Natural Gas	2.65					
RIGWA Tax	0.50	Tribal royalties; royalties received by governments	Collected by state; distributed to RIT except 14.1 percent to growndwater assessment acct	Return and payment due on 60th day following end of calendar year	Same as working interest	No special rules for stripper wells
Privilege & License	0.20	Tribal royalties; royalties received by governments	Collected by state; deposited in account for use by board of oil and gas conservation	Return and payment due 60 days after end of calendar quarter	Same as working interest	No special rules for stripper wells

* Net proceeds applies to production from wells drilled after June 30, 1985, or from wells not in operation for at least 5 years; LGST applies to wells drilled before July 1, 1985.
** Stripper oil wells are those which produce no more than 10 barrels of oil per day; stripper gas wells are those which produce no more than 60,000 cubic feet of gas per day.

SB 412 consolidates tax rates as shown in Table 4. For oil, the new rates will be applied only to primary and stripper oil production. Tax rates for incremental production from secondary and tertiary oil wells will be boosted by 0.1 percent above those under current law, i.e., as enacted in SB 18 during the November 1993 Special Session. The new law will consolidate the tax rates for incremental production from secondary and tertiary oil wells and for production from horizontal wells. For gas, the new rates will be applied to regular gas production and stripper gas production.

Table 4
New Oil and Gas Tax Rates (Percent) *
New rates due to SB 338, SB 412, HB 90, HB 418

Type of Tax	Tax Rate Oil	Tax Rate Gas
Working Interest - Pre-1985 Primary Wells	14.20	18.85
Working Interest - Post-1985 Primary Wells		
First 12 months	0.80	0.80
Next 12 months	7.80	12.80
After 24 months	12.80	15.45
Working Interest - Pre-1985 Stripper wells		11.30
First 3 barrels (oil only)	5.80	
> 3 barrels (oil only)	10.80	
Working Interest - Post-1985 Stripper wells		
First 12 Months	0.80	0.80
Next 12 months	7.80	11.30
After 24 months, First 3 barrels (oil only)	7.80	11.30
After 24 months, > 3 barrels (oil only)	12.80	11.30
Royalty Interest - pre-1985 wells	17.20	15.10
Royalty Interest - post-1985 wells	15.10	15.10

* Tax rates for non-incremental production only, which will be in effect as of July 1, 1995.

Tax Rates for Working Interest Producers

The top portion of Table 5 shows a comparison between consolidated tax rates on oil and gas for working interest producers under previous law and under the new law as changed by HB 90, HB 418, SB 338, and SB 412.

SB 412, by itself, would have held the number of tax rates applied to primary oil constant at four, and would have reduced the number of tax rates applied to gas production from nine to four. The passage of SB 412 combined with the passage of HB 90, HB 418, and SB 338 increased the number of rates applied to primary oil production to six and decreased the number of rates applied to gas production from nine to five.

Table 5
Tax Rates on the Working Interest and the Royalty Interest
for Oil and Gas Production
Consolidated Previous Law and New Law Rates (Percent)
New Law Includes SB 338, SB 412, HB 90, and HB 418

Interest/Production Type	Consolidated Previous Law	New Law	Legialation***
Working Interest			
Primary Oil Production			
Pre-1985 Oil Production	14.10	14.20	SB412, HB418
Post-1985 Oil Production			
First 12 Months	5.70	0.80	SB412, HB418, SB338
Next 12 Months	12.70	7.80	SB412, HB418, SB338
After 24 Months	12.70	12.80	SB412, HB418
Stripper Oil Production			
Pre-1985 Stripper Oil			
First 3 barrels	10.70	5.80	SB412, HB418, HB90
> 3 barrels	10.70	10.80	SB412, HB418
Post-1985 Stripper Oil			
First 12 months	5.70	0.80	HB418,SB338
Next 12 months	12.70	7.80	SB412, HB418, SB338
After 24 months, first 3 barrels	12.70	7.80	SB412, HB418, HB90
After 24 months, > 3 barrels	12.70	12.80	SB412, HB418
Regular Gas Production			
Pre-1985 Gas Production	18.60	18.85	SB412, HB418
Post-1985 Gas Production			
First 12 Months	3.35	0.80	SB412, HB418, SB338
Next 12 Months	15.35	12.80	SB412, HB418, SB338
After 24 Months	15.35	15.45	SB412, HB418
Stripper Gas Production *			
Pre-1985 Gas Production			
first 30,000 cu ft	10.70	11.30	SB412, HB418
> 30,000 cu ft	12.29	11.30	SB412, HB418
Post-1985 Gas Production			
First 12 months, first 30,000 cu ft	0.70	0.80	SB412, HB418
First 12 months, > 30,000 cu ft	2.29	0.80	SB412, HB418, SB338
Next 12 months, first 30,000 cu ft	12.70	11.30	SB412, HB418, SB338
Next 12 months, > 30,000 cu ft	14.29	11.30	SB412, HB418, SB338
After 24 months, first 30,000 cu ft	12.70	11.30	SB412, HB418, SB338
After 24 months, > 30,000 cu ft	14.29	11.30	SB412, HB418, SB338
Number of Different Oil Working Interest Rates	4	6	
Number of Different Gas Working Interest Rates	9	5	
Royalty Interest **			
Primary Oil Production			
Pre-1985 Oil Production	18.20	17.20	SB412, HB418
Post-1985 Oil Production			
First 12 Months	5.70	15.10	SB412, HB418
After 12 Months	12.70	15.10	SB412, HB418
Stripper Oil Production			
Pre-1985 Oil Production	18.20	17.20	SB412, HB418
Post-1985 Oil Production			
First 12 Months	5.70	15.10	SB412, HB418
After 12 Months	12.70	15.10	SB412, HB418
Regular Gas Production			
Pre-1985 Gas Production	18.60	15.10	SB412, HB418
Post-1985 Gas Production			
First 12 Months	3.35	15.10	SB412, HB418
After 12 Months	15.35	15.10	SB412, HB418
Stripper Gas Production			
Pre-1985 Gas Production			
First 30,000 cu ft	15.95	15.10	SB412, HB418
> 30,000 cu ft	17.54	15.10	SB412, HB418
Post-1985 Gas Production			
First 12 months, first 30,000 cu ft	0.70	15.10	SB412, HB418
First 12 months, > 30,000 cu ft	2.29	15.10	SB412, HB418
After 12 months, first 30,000 cu ft	12.70	15.10	SB412, HB418
After 12 months, > 30,000 cu ft	14.29	15.10	SB412, HB418
Number of Different Royalty Rates for Oil	3	2	
Number of Different Royalty Rates for Gas	9	1	

* The exemption of the first 30,000 cubic feet per day from the state severance tax for gas stripper wells is abolished under the new law.
** Royalty owners would lose their 12 month new well tax exemption from the net proceeds tax for both oil and gas wells.
*** Identifies bills whose combined effect results in the rates shown under "New Law".

For oil production, the new law rates equal the consolidated current law rates plus 0.1 percent — to account for the 0.1 percent increase in the P&L tax instituted in HB 418 — except in the first 24 months of production from a new well drilled after March 31, 1995 or if the oil is contained in the first 3 barrels produced from a stripper well. For post-1985 oil production for the first 24 months of production of a new well, the new law rate is 4.90 percent less than the consolidated current law rate. This reflects the net change to the consolidated rates from two bills: SB 338 — exempting new oil from the 5 percent severance tax for the first 24 months for a new well — and HB 418 — increasing the P&L tax by 0.1 percent. The new law rate on the first three barrels of oil produced by a stripper well also reflects the consolidated current law rates less 4.90 percent. This reduction is due to HB 90 — exempting the first 3 barrels of stripper oil from the 5 percent state severance tax — and HB 418.

For gas production, the new law reduces the number of tax rates from nine to five. SB 412 increased the consolidated tax rate on pre-1985 regular gas production. This increase, when combined with the increase of 0.1 percent in the P&L tax in HB 418, yields a new law rate of 18.85 percent. The new law rates for post-1985 gas production are reduced by 2.55 percent relative to the consolidated current law rates for the first 24 months of production from a new well. This reduction reflects the combined effect of SB 338 — exempting gas production from new wells from the state severance tax of 2.65 percent for the first 24 months of production — and HB 418, which adds 0.1 percent to the P&L tax. After a new gas well has been in production for 24 months, the new law rate is 0.1 percent greater than the consolidated current law rate.

SB 412 abolishes the state severance tax exemption for the first 30,000 cubic feet of production for a gas stripper well. The new law rates for gas stripper wells are extremely simplified relative to the consolidated current law rates. All stripper production pays a rate of 11.30 percent except for the first year of production of a new well, in which the rate is 0.8 percent.

Tax Rate Changes for Royalty Interest Owners

Tax rates under the new law for royalty interest owners of oil and gas wells are extremely simplified compared with consolidated current law rates for both primary production and stripper production. These differences are shown in the lower half of Table 5. Under current law, there are a variety of rates for royalty interest owners of primary oil wells and regular gas wells which were determined based on whether the resource was produced from pre-1985 wells or post-1985 wells. Under current law, royalty interest owners are able to take advantage of the 12-month net proceeds exemption for new oil or gas. In addition, royalty interest owners of gas wells are able to take advantage of the reduced state severance tax rate applied to gas production from stripper wells.

Effective January 1, 1996, under the combined effect of HB 90, and HB 418, SB 338, and SB 412, the 12-month exemption for royalty interest owners of new oil or gas wells will be abolished. In addition, the distinction between pre-1985 production and post-1985 production will be retained only for oil; it is abolished for gas. The distinction between stripper and non-stripper production will also be abolished for royalty owners of both gas and oil. As a result, the number of tax rates which apply to royalty interest owners drops from three to two for oil wells, and from nine to one for gas wells. The primary reason that royalty interest owners agreed to the changes embodied in the new law was to achieve a more simplified taxing structure than exists under current law.

SB 18 Incentives

The combined effect of HB 90, HB 418, SB 338, and SB 412 does not greatly effect the tax rates paid by working interest producers or the royalty interest owners for production from horizontal oil wells, and incremental oil production from secondary wells, tertiary wells, or horizontally recompleted wells. The current rates applicable to these types of production were enacted in SB 18 during the November 1993 Special Session. SB 412 consolidates the tax rates applicable to these wells so that the new consolidated rate equals the sum of the separate tax rates under current law. HB 418 adds 0.1 percent to each of these rates. HB 90 and SB 338 apply only to the non-incremental production from recompleted horizontal wells and secondary and tertiary projects. SB 338 will apply to production from a horizontal well. The new law rates are shown in Table 6. The non-incremental production from secondary and tertiary project wells and from recompleted horizontal wells will be subject to the rates in Table 5.

Table 6
New Law Tax Rates for Horizontal Oil Wells And for Incremental Production * from Secondary, Tertiary And Horizontally Recompleted Oil Wells

Oil Well Type	Tax rates (Percent) Working Interest	Royalty Interest
Horizontally Completed Well		
First 18 Months	0.80	5.80
Next 6 months	7.80	12.80
After 24 Months	12.80	12.80
New or Expanded Secondary Projects		
Pre-1985	8.80	16.30
Post-1985	8.80	10.80
New or Expanded Tertiary Projects		
Pre-1985	6.10	15.30
Post-1985	6.10	9.80
Recompleted Horizontal Wells		
First 18 Months	5.80	5.80
After 18 Months	12.80	12.80

* Incremental production is the amount of production within a project area due to application of enhanced recovery methods which is in excess of production that would have been realized in the absence of the enhanced recovery methods. Except for horizontal wells, these rates apply only to incremental production. The rates in Table 5 apply to the non-incremental production from these wells.

One Tax Return

As a result of consolidating all oil and gas taxes into a single tax, SB 412 consolidates the number of tax forms currently filed by oil and gas interests into one quarterly form for all state and local taxes. The return and payment will be due 60 days after the end of the production quarter.

Accelerated LGST Payment

Under current law, payment of LGST taxes is due quarterly 14 months after the quarter in which the resource was extracted, whereas payment of the state severance tax, the net proceeds tax, and the P&L tax is due quarterly two months after the quarter in which the resource was extracted. Requiring that one return be filed and that taxes be paid 60 days after the quarter in which production takes place will result in two years of LGST being collected in one year. In order to mitigate the harm this might cause producers, the accelerated portion of the LGST for production occurring in calendar 1995 may be paid as follows: the accelerated tax is due in four equal payments at 12-, 24-, 36- and 48-month intervals from the date on which the first quarterly payment is due under current law. If the total payment is made within the first six months, the taxpayer will receive a six percent discount. If the total payment is made within a 6 to 18-month period, no interest will be due. Any tax paid after 18 months will accrue interest at a statutory rate of 12 percent annually.

SB 412 distributes the accelerated LGST collections to counties in the same manner in which the LGST was distributed under current law, i.e. on the basis of LGST unit value. The distribution of the accelerated collections within the county will also be as under current law, i.e. between county governments and schools on the basis of the number of mills levied in fiscal 1990 (although SB 424 disallows the use emergency mills levied in fiscal 1990 in the calculation). Counties will be able to place these receipts in a special fund which may be used outside the normal budgeting process and outside of I-105 strictures. Schools will be able to deposit accelerated collections of LGST in any budgeted fund or into an excess reserve fund. If school districts deposit the accelerated tax revenue in the county general funds, districts will be able to designate it as excess reserve revenue and will not be required to reduce general fund mill levies, or offset guaranteed tax base (GTB) receipts from the state.

In addition to the acceleration of LGST collections, SB 412 will result in accelerated collections of the RIGWA tax. Under current law, the RIGWA tax is collected 60 days after the end of the calendar year in which production takes place. Quarterly collections of the new oil and natural gas production tax will result in accelerated collections of the RIGWA share of this tax. Accelerated collections of the RIGWA tax will take place in May of Fiscal 1996 when the new oil and gas production tax applicable to production in the first quarter of 1996 is remitted to the state. The one-time increase in general fund receipts will be $45,000. Because the state will receive the RIGWA share earlier than under current law, however, there will be additional interest earnings to state accounts which receive RIGWA collections.

Distribution of the Oil and Natural Gas Production Tax

Under the SB 412, the state will collect the oil and natural gas production tax. The intent of HB 90 and SB 338 was that the state general fund should experience revenue declines associated with these bills. The intent of HB 418 was that the special revenue account for use by the Board of Oil and Natural Gas should experience revenue increases. Because the passage of these bills affect total revenues from the oil and gas production tax in SB 412, it was unknown at the time of passage what were the correct revenue-neutral allocation percentages for state and local governments. Language in HB 90, HB 418, and SB 338 gives the Department of Revenue rule-making authority to calculate the appropriate allocation percentages for distribution of the new oil and gas production tax for state accounts and local governments.

Once these allocation percentages are determined, the share of the oil and natural gas production tax received by the county will be distributed between school and county taxing units in a manner different for old production than for new production. The county share of the production tax from old wells will be distributed on the same basis as under the current law applicable to the LGST, where all LGST collections are pooled at the state level. Each tax levy district, which is made up of several taxing jurisdictions including the state,

county, and school districts, is allocated a share of total LGST collections based on an historical unit value for that levy district. The unit value for each levy district is the ratio of old oil and gas tax revenues received in fiscal 1990 to pre-1985 oil and gas production in calendar year 1988. The share that each levy district receives is then divided among its constituent taxing units based on the mills each taxing unit levied in fiscal 1990.

The county share of tax receipts under the new oil and gas production tax which is derived from new production will be distributed in the same manner that the net proceeds tax is distributed under current law. Under current law, the net proceeds tax are collected by the county and distributed to each taxing unit on the basis of mills levied in the previous year.

Fiscal Impacts

Industry Impacts

To date, the final impacts of the new oil and gas production tax on the tax liability for working interest producers and royalty interest owners in fiscal 1997 has not been calculated. Based on 1993 production data, the changes in effective tax rates appear to be small and changes in tax liabilities also appear to be minimal for all but working interest producers of stripper oil. As shown in Table 7, some working interests will experience an increase in tax liability; for example, working interest producers of pre-1985 oil and gas wells and all royalty owners will, on average, experience effective tax rate increases. Other working interest producers will, on average, experience declines in tax liability, such as post-1985 working interest producers of oil and gas, mainly due to the exemptions enacted in SB 338. The precise effective tax rates for future production can not be estimated.

Table 7
Effective Tax Rates, by Type of Production
For Oil and Gas, Based on Projected Fiscal 1996 Revenue
(in Percent)

Interest/Type of Production	Previous Law Effective * Rate	New Law Effective * Rate	Percent Change
Oil Production - Primary Production Only			
Working Interest Pre-1985 Oil	14.10	14.20	0.71
Working Interest Post-1985 Oil	11.91	11.45	(3.86)
Working Interest Stripper Oil	10.64	6.94	(34.77)
Royalty Interests - All Oil	16.07	16.50	2.68
All Oil	13.43	13.02	(3.05)
Gas Production			
Working Interest Pre-1985 Gas	18.60	18.85	1.34
Working Interest Post-1985 Gas	12.95	12.52	(3.32)
Working Interest Stripper Gas	10.52	10.33	(1.81)
Royalty Interests - All Gas	14.92	15.10	1.21
All Gas	13.19	13.07	(0.91)

* Effective tax rate is total tax paid expected to be paid in fiscal 1996 divided by gross value of expected production in calendar 1995.

Government Impacts

The impact of the new oil and gas production tax on government receipts should, as a whole, also be minimal. Some counties and school districts will experience increases in tax revenue; others will experience decreases. The specific increases and decreases in tax revenue for each taxing jurisdiction have not yet been calculated. In general, those taxing jurisdictions with high concentrations of post-1985 stripper oil production and post-1985 stripper gas production will experience declining revenues, while those jurisdictions with high concentrations of pre-1985 regular gas and pre-1985 primary oil, if from wells at least two year old, will experience increasing revenues.

In addition to the direct gain or loss in tax revenues experienced by school districts as a result of the new oil and gas production tax, there will be secondary impacts on school revenues because changes in receipts of oil and gas "non-levy" revenues alter the guaranteed tax base (GTB) revenues received from the state. These GTB effects should be small for the state and school districts as a whole, but the GTB effects for individual districts could be significant.

LGST Acceleration Impact

The impact on governmental units resulting from the acceleration of LGST payments will depend on how soon companies pay the accelerated liability. Table 8 shows the estimated impact of the LGST accelerations on state accounts and on local governments as a whole. These estimates were based on projected calendar 1995 production and price levels, and assume that producers pay early and receive the six percent discount.

Table 8
Distribution of Accelerated LGST
Due to SB 417, FY96

Account/Gov't Unit	Amount (Millions)
University System (6 mill account)	$0.594
State General Fund	4.459
County Governments	5.939
Miscellaneous Districts	0.205
County Education, Transport & Retire	1.881
Elementary Districts	2.745
High School Districts	2.704
Total	$18.527

Coal Tax Legislation

House Bill 343 provides an exemption from the state coal severance tax for coal which is used as feedstock in a coal enhancement facility. The new state coal severance tax exemption is available for up to two million tons of coal per year per supplier. Coal enhancement facilities use coal feedstock to produce a solid, liquid or gaseous fuel as the primary product. These facilities thermally or chemically alter the characteristics of the coal by either improving its BTU value per pound or reducing its sulfur concentration by at least 25 percent. HB 343 is effective for coal produced during calendar 1995 and every year thereafter until December 31, 2005. The bill is expected to reduce state severance tax collections by $.264 million in fiscal 1995 and by $1.050 million during the 1997 biennium. The reduction in coal severance tax revenue distributed to the general fund and SEA is expected to be $.071 million in fiscal 1995 and $.281 million during the 1997 biennium.

Rail Car Tax Legislation

Senate Bill 257 as passed, amended the Rail Car Tax enacted in the June 1992 Special Session, but was subsequently vetoed by the Governor. The Rail Car Tax is a property tax collected by the state on all rail cars other than those owned by railroads. Current law regarding the taxation of rail cars contains two significant features:

1) allocation of value to Montana is to be on a mileage basis, i.e. miles traveled in Montana divided by total system miles traveled within North America, unless the Department of Revenue adopts a different method by administrative rule. The department currently has adopted a rule which allocates value based on mileage and on speed (500 miles per day for the period spent in the state), giving each factor equal weight.

2) the mill levy applied to the value allocated to Montana is the average rate of taxation on all commercial and industrial property in Montana.

SB 257 altered both these features by:

1) changing the value allocation method by weighting mileage by one-fourth and speed by three fourths, thus moving in the direction of reducing tax liability for car companies;

2) changing the mill levy applied to rail cars to the mill levy applied to railroads, again moving in the direction of reducing rail car company tax liability; and

3) abolishing the tax at the end of tax year 1997.

SB 257 would have reduced annual tax liability for all Montana rail car companies from approximately $3.1 million to approximately $2 million. However, current collections of the tax are not being deposited in the general fund due to litigation in Federal District Court in Billings between the state and several of the rail car companies. Before the session began, at a meeting to provide the legislature with estimates of 1997 biennium general fund revenue, the Revenue Oversight Committee declined to count on any future revenue from the rail car tax because of the uncertain status of the litigation. At issue in the litigation are the very mill levy and allocation issues that were addressed by SB 257. See Rail Car Tax in the section on Revenue Estimates for a complete description of this litigation.

SB 257 was vetoed by the Governor. In explaining his veto, the Governor stated:

Senate Bill 257 was introduced with the legislative intent to provide a vehicle for negotiation and settlement of the current ongoing litigation between rail car companies and the State of Montana over the taxation of railroad cars. Though this bill did accomplish its purpose of precipitating active negotiations between the parties, no settlement was reached. The companies have unequivocally expressed their aversion to settle the case on the basis of the provisions of Senate Bill 257.

Fee Increases

The 1995 legislature enacted new and increased fees that will raise an estimated $66.3 million during the 1997 biennium. The increased fee revenue, which will be deposited in accounts other than the general fund, will be used to fund agency budgets. Although 25 bills were enacted that raise fees, the amount of estimated revenue is nearly triple the amount of new fee revenue contained in legislation enacted by the 1993 legislature in over 70 bills. A large portion of the increase is the anticipated increase in tuition authorized by the Board of Regents.

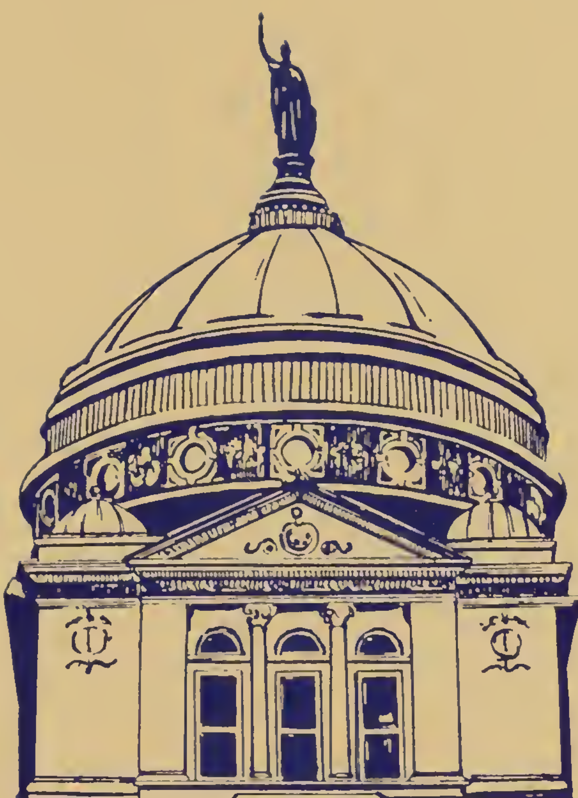
Table 9 shows the legislation that imposed new or increased fees and the anticipated revenue from each. The 1997 biennium estimate of the increased fee revenue due to the legislative change is based upon the fiscal note for each bill, updated (if necessary) for subsequent changes in the bill. Agencies were unable to estimate the increased revenue that may result from some of the bills.

Table 9
Anticipated Revenue From New or Changed Fees *
1997 Biennium

Bill	Fee	New**	Chg.	Fiscal 96 Change	Fiscal 97 Change	Biennial Change
Licenses and Permits						
SB49	GVW fee schedule change for intra- and interstate trucks		X	92,794	92,794	185,588
SB161	Replaces property tax on motorcycles with a fee.	X		(100,627)	(100,627)	(201,254)
SB171	Physical therapist assistant licensure	X		2,575	925	3,500
SB264	Professional employer organization license	X		7,500	7,500	15,000
SB354	Contractor Registration ***	X		336,725	475,820	812,545
SB388	Application fee for review of managed care network application	X		Unknown	Unknown	Unknown
SB389	Game farm license and license renewal fee (based on number amimals)		X	Unknown	Unknown	Unknown
SB417	Tax rate change on business equip.-affects ad valorem tax on large trucks		X	0	(4,217,159)	(4,217,159)
HB068	Boiler inspection and engineers' license fees ****	X	X	0	0	0
HB97	Personalized veterans' license plates	X		17,800	12,950	30,750
HB195	Non-resident comination and deer combination licenses		X	1,252,500	1,447,500	2,700,000
HB200	$25 Application fee for independent contractor exemption	X		Unknown	Unknown	Unknown
HB219	Special vehicle registration for MT residents on active military duty		X	(11,820)	(11,820)	(23,640)
HB418	Privilege and license tax on oil and gas production		X	301,000	309,000	610,000
HB445	Noxious weed seed free forage	X		33,800	33,800	67,600
HB509	Fees for certification of public advantage and reports	X		104,200	97,000	201,200
HB561	Motorcycle training fee		X	49,500	64,300	113,800
HB565	Reduces livestock head counts. Bd. of Live. may raise cattle per capita tax.		X	Unknown	Unknown	Unknown
HB600	Allocate 20% of motorboat in-lieu of taxes to FWP instead of counties	X		148,000	148,000	296,000
	License & Permits Subtotal			2,233,947	(1,640,017)	593,930
Charges For Services						
HB2	State Lands fire protection taxes		X	74,876	69,817	144,693
HB2	University tuition#		X	25,231,859	30,883,705	56,115,564
HB2	Census and Economic Information Center (Commerce) user fee		X	15,000	15,000	30,000
HB17	University tuition to fund pay increases#		X	1,356,242	2,723,275	4,079,517
HB 176	Courts of Original Jurisdiction User Surcharge	X		983,400	983,400	1,966,800
HB248	Revise drivers' licensing laws		X	1,630,000	1,640,000	3,270,000
	Charges for Services Subtotal			29,291,377	36,315,197	65,606,574
Rentals, Leases, and Royalties						
SB147	State water project land leases - HB 2 Biennial Language Appropriation	X		50,000		50,000
	Rentals, Leases, Royalties Subtotal			50,000	0	50,000
Contributions and Premiums						
HB539	Tobacco educational fees	X		10,000	10,000	20,000
	Contributions & Premiums Subtotal			10,000	10,000	20,000
	TOTAL			**$31,585,324**	**$34,685,180**	**$66,270,504**

* From most recent status of fiscal note. Estimates include change in fee revenue from changes in who is required by the legislation to pay the fee. Estimates do not include increased fines or penalties.
** Also indicates changes in people/commodity subject to the fee even though the fee itself may not be new.
*** Amounts are appropriations in HB 2. SB 354 allows assessment of fees up to $80 on each contractor. Fiscal note assumed a $50 fee (original maximum amount in SB 354) will be assessed to all contractors and that maximum revenues ($400,000) would be collected each year even though contractors are not required to register until July 1, 1995, the first day of fiscal 1997.
**** Will result in increase in fees for boiler inspections and boiler engineers' licenses of $133,500 each year that will be offset by reductions in assessments to workers' compensation insurers.
\# Increases from fiscal 1994 base - increases include both enrollment and rate increases HB2 appropriation is a biennial lump sum appropriation

As the table shows, 19 bills imposed new or increased existing license or permit fees. Another four bills increased charges for services provided by state agencies and the university system. Two bills increased leases and contributions. The increased tuition revenue shown in the table reflects spending authority provided in House Bill 2, since the Board of Regents, not the legislature, establishes tuition rates.



OTHER BUDGET HIGHLIGHTS

OTHER APPROPRIATIONS BILLS

The majority of direct legislative appropriations are made in HB 2, the general appropriations act. However, the legislature also appropriates funds in other bills. Table 1 lists all other appropriations bills passed by the 1995 legislature. As shown, a total of $37.5 million general fund and $261.6 million other funds ($299.1 million total funds) were appropriated. Each of these bills is discussed in greater detail in the individual agency narratives in Volumes I and II of this report.

Table 1
Other Appropriations Bills
1997 Biennium

Bill No.	General Fund	Other Funds	Total	Description
Long Range Planning Bills				
HB 5		$116,476,128	$116,476,128	Long range planning
HB 6		1,911,204	1,911,204	Renewable resource grants
HB 7		3,067,753	3,067,753	Reclamation and development grants
HB 8		24,710,852	24,710,852	Bond proceeds for renewable resource loans
HB 9		593,720	593,720	Cultural and aesthetic grants
HB 10		577,300	577,300	Oil overcharge
HB 11		4,991,029	4,991,029	Treasure state endowment
HB 12		5,600,000	5,600,000	Bond proceeds for energy conservation
HB 15		32,865,240	32,865,240	Bond proceeds for Havre job service office
HB 584		1,450,000	1,450,000	Law enforcement academy
HB 585		9,000,000	9,000,000	Bonds for correctional & law enforce. facilities
HB 594		21,000,000	21,000,000	Forensic unit at Mt. State Hospital
HB 603		14,100,000	14,100,000	University building projects
Subtotal	$0	$236,343,226	$236,343,226	
Other Appropriation Bills				
HB 5	$3,500,000		$3,500,000	School facilities (OPI)
HB 17	16,558,177	$19,120,774	35,678,951	State employee pay plan
HB 20	96,000		96,000	Veteran headstones
HB 171	250,000		250,000	Administration costs of tax refund
HB 240		20,000	20,000	Juvenile Study Commission costs
HB 305		2,359,857	2,359,857	Loan proceeds for natural resource litigation
HB 307	144,477		144,477	"Title Only" procedures for used car dealers
HB 354		3,250,000	3,250,000	Microbusiness finance program (coal tax)
HB 395		72,911	72,911	State noxious weed management plans
HB 460	20,000	175,000	195,000	Communications task force
HB 471		23,800	23,800	Retirement committee
HB 490	78,816		78,816	Job registry
HB 497	15,379,500		15,379,500	Homeowner tax refund and administration
HB 544	1,400,000		1,400,000	Financial assistance to resident students
HB 550		250,000	250,000	Analysis of employer wage reporting
HB 578	12,000		12,000	Oversight of Children & Family Committee
SB 417	15,000		15,000	Tax task force
Subtotal	$37,453,970	$25,272,342	$62,726,312	
Total	$37,453,970	$261,615,568	$299,069,538	

PUBLIC SCHOOL FUNDING

State Support for K-12

During the 1995 biennium, state support for public elementary and secondary schools (K-12 grades) will be $900.9 million, as shown in Table 1. This is the single largest expenditure of state funds, dwarfing the 1995 biennial general fund appropriation of $391.0 million to operate state government agencies, $215.5 million for the University System, and $298.0 million for the departments of Family Services and Social and Rehabilitative Services.

Budgeted for the 1997 biennium, state support for public elementary and secondary schools (K-12 grades) is estimated to be $924.5 million, compared with the 1997 biennial general fund appropriation of $276.7 million to operate state government agencies, $214.3 million for the University System, and $448.1 million for the Department of Public Health and Human Services.

Table 1
State Support for K-12 Education*
1993, 1995 and 1997 Biennia
(In Millions)

	---- State Support ----		
Program	1993 Biennium	1995 Biennium**	1997 Biennium***
Foundation/Direct State Aid	$702.6	$539.1	$543.0
Guaranteed Tax Base	92.1	266.2	284.7
Transportation	19.9	20.5	21.1
Special Ed	67.6	67.1	67.5
Other	4.2	8.1	8.3
Total	$886.4	$901.0	$924.5

* Includes continuing appropriation authority and one-time expenditures not shown in GF/SEA balance sheets. Excludes OPI administration.
** Actual for fiscal 1994, budgeted for fiscal 1995.
*** Appropriated for 1997 biennium.

State support for K-12 education increased substantially in fiscal 1991, when HB 28, a school equalization bill passed during the June 1989 Special Session, became effective. This bill increased foundation schedules by 14 to 24 percent and provided state guaranteed tax base (GTB) support for a portion of school general fund and retirement costs. This resulted in an increase of more than $105.0 million in annual state expenditures for K-12 education between fiscal 1990 and 1991. This increase was nearly 32 percent of fiscal 1990 K-12 state expenditures.

The large schedule increase in fiscal 1991 was primarily a reallocation between state and local school district support. School general fund budgets increased by only 8.5 percent between 1990 and 1991, despite the large increase in state support. In fiscal 1992, state support increased only slightly due to small increases in average number belonging (ANB), and then increased more rapidly in fiscal 1993, due to large increases in ANB. School general fund budgets, however, increased substantially faster than did state support during these two years. While state support increased an average of 1.5 percent per

year in fiscal 1992 and fiscal 1993, school general fund budgets increased by 5.4 percent annually.

BASE Funding Schedules

During the 1993 regular legislative session, the legislature abandoned the old school foundation schedules. In their place the legislature passed HB 667, which created per-district and per-ANB entitlements. These entitlements are formula-driven and depend on the number of ANB and the level of special education funding. The new BASE system was implemented in the 1993-94 school year.

Difference Between Old and New Funding Mechanisms

The major difference between the new system of funding school districts' general fund budgets and the old system under the foundation schedules is that districts' general fund budgets are now constrained by a formula. The old foundation schedules merely constrained state spending. The old system partially constrained annual school general fund budget increases but, over time, districts were able to build budgets to whatever level voters would allow. Under the BASE funding system, no school may exceed the formula-driven maximum budget, unless its 1993 budget exceeded the maximum. In addition, after a 5-year phase-in, no district may budget below the BASE budget level. The purpose of the new system is to reduce spending disparities between similarly sized school districts and to stabilize the proportion of school costs paid by the state.

HB 28 increased the old schedules to deal with the problem of inadequate state funding. In addition, HB 28 instituted a GTB system to subsidize low wealth schools in order to lower spending and taxation disparities among schools. These solutions were instituted in response to a Supreme Court ruling, in *Helena v. the State of Montana (No. 1)*, that deemed the Montana school system unequalized. Table 2 shows state funding for the general fund as a percent of total school general fund from fiscal 1990 through 1997. The state's share of school general fund spending rose sharply in fiscal 1991, but declined slowly thereafter.

Table 2
State Spending * as a Percentage Of School General Fund

Fiscal Year	Percentage
1990	64.5
1991	75.9
1992	73.6
1993	69.9
1994	67.5
1995 **	66.7
1996 **	67.0
1997 **	66.1

* State spending for school general fund only
** Budgeted

Funding Method

A second school funding suit was brought in 1991, contending that HB 28 had failed to alleviate spending disparities among school districts. In order to forestall this suit, the 1993 legislature passed HB 667, which installed the BASE funding system, limiting both state and school spending. The new system created maximum budgets and a BASE budget for schools, creating a tightly defined school general fund budget window. Also, HB 667 reduced the direct grant to schools, and expanded GTB funding for schools.

The maximum budget for a school district is the sum of its basic per-school entitlement, its per-ANB entitlement, and 153 percent of its special education allowable costs. Unless a school's 1993 budget already exceeded the maximum budget, no school's budget may exceed the maximum. In fiscal 1995 there were 64 schools, or 13.6 percent of all schools, with budgets above the maximum. These school budgets may not increase and, beginning in fiscal 1996, voters must approve any budget authority above the maximum. In fiscal 1995, several of these schools substantially reduced their general fund budgets by actions of the trustees.

PUBLIC SCHOOL FUNDING

The BASE budget for a school district is the sum of 80 percent of the district's basic entitlement, 80 percent of its per-ANB entitlement, and up to 140 percent of its special education allowable costs. Once a school has attained a budget that equals or exceeds the BASE budget level, its budget cannot fall below the BASE budget level. Schools which had budgets below the BASE budget level in fiscal 1993 were required to increase their budgets incrementally and must attain the BASE budget level by the 1997-98 school year. Budgets may increase faster than this schedule if voters approve additional budget authority. In fiscal 1995, there are 122 schools with budgets below the BASE budget level.

State direct aid supports half the BASE budget, and supplies GTB aid for the other half. Any spending beyond the BASE amount is not supported by the state, but must be funded by non-levy revenue or property taxes.

HB 667 changed the way ANB were counted for funding purposes. Under previous law, ANB was defined as average enrollment during the previous calendar year, adjusted for pupil-instruction related (PIR) days, and excluding students who spent more than one-half day in special education classes. Under current law, ANB is the average of the enrollment counts in October and February of the previous school year, adjusted for PIR days. In addition, beginning in fiscal 1995, students who spend more than one-half day in special education classes are included in the ANB count.

Capital Project Reimbursement

HB 667 also instituted a state reimbursement program for debt service expenditures associated with capital projects. Schools with debt service commitments from bonds sold after July 1, 1991 are eligible for the reimbursement if they are GTB-eligible. The legislature appropriated $1 million per year for the program, which began in fiscal 1994. At the end of fiscal 1995, debt service payments for all bonds, including pre-1991 bonds, will be eligible for capital outlay GTB.

House Bill 416, passed by the 1995 legislature, extends and expands the capital reimbursement aid program for school's debt service commitments. Under current law, the state spent $1 million a year in capital reimbursement aid to schools with debt service payments associated with bonds sold after July 1, 1991. At the end of fiscal 1995, all debt service payments for all schools would have been eligible for the reimbursements, including schools with pre-1991 bonds. HB 416 reestablishes the July 1, 1991 date for reimbursement purposes.

HB 416 also advances reimbursement aid so that school districts will receive it in the first year a new facility is built. Under current law, a school district did not receive a reimbursement until the year after a new facility was built, resulting in high first year debt service levies, followed by lower levies in the second year and beyond. The advance will obviate the need for schools to levy high first year debt service levies.

As passed by the legislature, HB 416 contained general fund appropriation authority of $1.5 million in fiscal 1996 and $2.0 million in fiscal 1997 to pay for the capital outlay reimbursements. This appropriation authority was also amended into House Bill 5. In order to eliminate the double appropriation authority, the Governor line-item vetoed the appropriation authority in HB 416. The Governor's line-item veto was accepted by the legislature.

Entitlement Formulas

Fiscal year 1994 was the first year of implementation of HB 667. During the November 1993 Special Session, the legislature made substantial changes in the entitlement formula by enacting HB 22. Both per-school and per-ANB entitlements for fiscal 1995 were reduced by 4.5 percent. In addition, schools were required to reduce fiscal 1995 budgets by 4.5 percent, after which they were allowed to increase budgets by no more than 4 percent or 4 percent per ANB. These increases in budget authority require voter approval.

The result of the changes made in the November 1993 Special Session in HB 22 was to reduce state support costs for K-12 education. The 4.5 percent reductions in entitlements reduced direct

state aid costs. However, the reductions were offset somewhat by the change in the method of counting ANB, as well as normal growth in ANB. The net effect of these changes was to reduce direct state aid by $4.4 million between fiscal 1994 and fiscal 1995. This reduction in direct state aid was more than offset by a net increase in GTB costs of $5.0 million between fiscal 1994 and fiscal 1995. GTB costs increased in spite of the reduction in entitlements because schools with budgets below the BASE level were forced to increase their budgets toward the BASE level in fiscal 1995. GTB costs will continue to increase faster than direct state aid costs until fiscal 1998, when all schools must budget at least at the BASE budget level.

The 1995 legislature left the entitlement formulas for K-12 education as they were enacted in HB 22. As shown in Table 3, the per-district entitlement and the per-ANB entitlements during the 1997 biennium will remain at the same levels as in fiscal 1995.

Table 3
K-12 Entitlements

	Fiscal 1994	Fiscal 1995	Fiscal 1996-97
Elementary			
Per School district	$18,000	$17,190	$17,190
Per - ANB*	3,500	3,343	3,343
High School			
Per School district	$200,000	$191,000	$191,000
Per - ANB*	4,900	4,680	4,680

* The per-ANB entitlement for elementaries is reduced by $.20 for each additional ANB up to the 1000th ANB, and for high schools by $.50 up to the 800th ANB.

Transportation Reimbursement

The 1995 legislature also enacted Senate Bill 112. SB 112 changes the method by which both regular and special education pupils are counted for transportation reimbursement purposes. Under current law, each regular elementary and high school child is counted as one child for reimbursement purposes. Also, any school bus is deemed to be full if at least one special education was riding the bus. SB 112 allocates to each elementary child one ridership point, each high school child 1.5 ridership points, and allocates special education children a variety of points based on his/her specific disability. Transportation reimbursement rates are unaffected by SB 112. Total state transportation reimbursement costs will be reduced by $97,000 annually beginning in fiscal 1996.

The legislature approved a $1.62 million general fund supplemental to allow the state to reimburse school districts for transportation costs in accordance with the payment schedules set forth in sections 20-10-140, MCA; 20-10-142, MCA; and 20-10-145, MCA. In June 1994, the Office of Budget and Program Planning approved a transfer of $800,000 from the fiscal 1995 general fund

appropriation for school transportation costs incurred in fiscal 1994. The fiscal 1995 supplemental request included $800,000 to replace the amount transferred, plus an additional $820,000. By statute, the state must reimburse school districts for the transportation costs incurred by a school district in transporting eligible students to and from school.

According to the Office of Public Instruction (OPI), the increase in school transportation payments is due to a combination of: 1) additional bus routes; 2) a growing number of students riding school buses; and 3) a decline in the school district transportation cash reserves available to reduce the state's share.

Bonus Payments

Senate Bill 423, enacted by the 1995 legislature, allows schools to maintain bonus payments received from the state to be held in an excess reserve account. Under current law, bonus payments are made to districts by the state to encourage consolidation and are received over a three year period. In the November 1993 Special Session, bonus payments for new consolidations after July 1, 1994 were discontinued, but some schools continue to receive bonus payments as a result of consolidations which took place before that date. SB 423 allows these schools to continue depositing bonus payments in an excess reserve account. In the absence of this legislation schools would have had to reappropriate these funds thereby reducing state GTB aid. As a result of SB 423, GTB aid will increase slightly during the 1997 biennium.

Revenues

The Fifty-fourth Legislature also enacted several changes affecting revenue for K-12 funding.

SB83 abolishes the school equalization account, and revenue formerly deposited in this account for school support will be deposited in the general fund beginning in fiscal 1996.

House Bill 50 makes permanent certain provisions regarding the sale of timber on state lands. HB 50 will result in additional sales of timber during the 1997 biennium. Additional costs associated with the sale of timber will, however, also be incurred. Since these costs are deducted from current timber sale revenues, there will be a loss in revenue of $297,000 in fiscal 1996 and an increase in revenue of $391,000 in fiscal 1997.

House Bill 201 requires the state to increase timber sales from state lands consistent with an annual sustainable yield of 45 million board feet to 55 million board feet, contingent on a study to determine the appropriate level of annual sustainable yield. HB 201 caps the amount of timber sale revenue deposited in the general fund (formerly the school equalization account, which was abolished in SB 83) from the common school trust at an average annual sale value of 18 million board feet. Any excess timber sale revenue from the common school trust is to be diverted to the general fund, but "earmarked" for deposit in school districts' newly established technology acquisition fund to buy technological equipment and provide technical training for school district personnel. No appropriation authority was provided to spend the deposits in the technology acquisition fund during the 1997 biennium.

During the 1997 biennium no reduction in revenue is anticipated from the cap on timber sale revenue from the common school trust since annual harvests are close to 18 million board feet. The cap may affect timber sale revenue from the common school trust that is deposited in the general fund in future biennia.

House 201 does affect timber sale revenue because it diverts timber sale revenue before it is deposited in the general fund to pay for costs associated with increasing timber sales. The total revenue effect is expected to be a loss to the general fund of $1.107 million during the 1997 biennium.

House Bill 274 grants the Department of State Lands broader discretion to expedite sales of state timber in emergency situations and limited access situations. (Effective in fiscal 1996, as a result of the natural resources reorganization bill [SB 234], the forestry function was transferred from the Department of State Lands to the Department

of Natural Resources and Conservation.) As a result of HB 274, timber sale revenue will increase and revenue deposited in the general fund is expected to increase by $.537 million during the 1997 biennium.

Senate Bill 412 revises the taxation of oil and gas production by aggregating a variety of separate taxes into one set of oil and gas production taxes, all due within 60 days following the end of the production quarter and paid to the Montana Department of Revenue. The bill has two major impacts on schools: 1) it accelerates the payment of local government severance taxes (LGST) on calendar 1995 production, providing schools located in oil and gas producing areas with a windfall in revenue; and 2) beginning in calendar 1996, schools will receive the oil and gas tax distribution within 120 days following the production quarter.

The accelerated LGST payment will be distributed to local governments and schools in July, 1996 and again in July, 1997. Schools may deposit this revenue in any budgeted fund of the district or in the miscellaneous programs fund. If the district chooses to deposit the monies in the district general fund, the district may reserve the funds as excess reserves with the option of using such funds to reduce over-BASE levies.

Senate Bill 417 lowers the property tax rate on business equipment and machinery from nine percent to six percent over a three-year period beginning January 1, 1996. School districts and local governments will be reimbursed for the loss of property tax revenues for 3 years. For the tax year beginning January 1, 1999, the reimbursements will be phased-out by 10 percent each year until it is entirely eliminated in fiscal 2009. Beginning in fiscal 2000, property tax reimbursements associated with HB 20, passed during the 1989 legislative session, will also be phased-out at a rate of 10 percent per year.

Districts will allocate the new reimbursements across the funds of the district in proportion to the mill levies for the various funds. The allocation to the district general fund will be made in the same manner as other nonlevy revenues, to reduce the BASE budget levy. In districts eligible for GTB aid, the new reimbursement will reduce the state GTB payment. The amount of the reduction in GTB aid is not known.

Reduction in Projected Costs Due to New Enrollment Numbers

Enrollment counts for K-12 are conducted in October and February of each school year. Subsequent year ANB estimates are a function of these enrollment counts. In March, 1995, the February enrollment count became available and revealed that enrollment in school year 1995 was below anticipated levels. Estimates of state support for schools for the 1997 biennium were based on estimates of ANB growth of nearly 2,000 ANB per year in fiscal 1996 and fiscal 1997. However, the February 1995 enrollment count indicated that growth in ANB in fiscal 1996 would be only 1,152 ANB. As a result of this new data, total fiscal 1996 ANB were estimated to be 163,721. ANB in fiscal 1997 were estimated to be 165,741, a decline of 770 ANB compared to pre-session estimates. The new ANB estimates for the 1997 biennium are shown with historical information in Table 4.

Table 4
Average Number Belonging (ANB) in Montana Schools
FY1988 - 1997

Year	Elementary	% Change	High School	% Change	Total	% change
1988	103,777		46,485		150,262	
1989	104,386	0.59	44,932	(3.34)	149,318	(0.63)
1990	105,763	1.32	43,327	(3.57)	149,090	(0.15)
1991	105,593	(0.16)	42,407	(2.12)	148,000	(0.73)
1992	106,579	0.93	41,890	(1.22)	148,469	0.32
1993	108,523	1.82	42,614	1.73	151,137	1.80
1994	111,497	2.74	45,457	6.67	156,954	3.85
1995 *	114,758	2.92	47,811	5.18	162,569	3.58
1996 **	114,700	(0.05)	49,021	2.53	163,721	0.71
1997 **	114,789	0.08	50,952	3.94	165,741	1.23

* Includes for first time students who spend more than 1/2 day in special education classes.
** OPI projections of ANB

The downward adjustment in enrollment in fiscal 1995 will result in reduced school budget amendment requests. Schools may request a school budget amendment, and receive a resulting increase in direct state aid, from OPI when enrollments increase by 6 percent or more from the previous year. Previously, public school funding contained $1 million in contingency direct state aid in order to provide for fiscal 1995 budget amendments. The new enrollment numbers reduced the estimate of contingency direct state aid requests in fiscal 1995 from $1,000,000 to $600,000. In addition, in March 1995, it appeared that final costs associated with state guaranteed tax base (GTB) for school retirement accounts in fiscal 1995 would be above the estimated amount developed before the 1995 session. The estimate of fiscal 1995 retirement GTB was increased by $147,000. The net impact of these two changes in state support for schools in fiscal 1995 was an increase of $253,000.

The downward adjustment in ANB in fiscal 1996 and fiscal 1997 will result in a substantial reduction in state support for schools' general fund and retirement accounts. Fewer funded ANB during the 1997 biennium is expected to result in state cost savings of $3.2 million in direct state aid, $1.6 million in school general fund GTB and $.5 million in school retirement GTB. These savings, in addition to savings due to reduced direct state aid contingency amounts for school budget amendments, will bring the total reduction in state support costs during the 1997 biennium to $6.1 million compared with pre-session estimates.

PUBLIC SCHOOL FUNDING

Distribution to Schools for the 1995 and 1997 Biennia, K-12 Funding

Table 5 shows state general fund support for K-12 for fiscal 1994 through fiscal 1997 by cost category. All costs during the 1997 will be paid from the general fund as a result of SB 83.

Table 5
School Funding Costs*
By Fiscal Year

	Fiscal 1994	Fiscal 1995	Biennium	Fiscal 1996	Fiscal 1997	Biennium
Direct State Aid	$271.766	$267.313	$539.079	$269.751	$273.236	$542.987
General Fund GTB	111.490	116.511	228.001	119.291	120.876	240.167
Retirement GTB	17.085	19.132	36.217	19.909	21.103	41.012
Capital Reimbursements	1.000	1.000	2.000	1.500	2.000	3.500
Special Education **	32.847	32.637	65.484	32.723	32.723	65.446
Special Education Contingency	0.436	1.217	1.654	2.031	0.000	2.031
Transportation	10.132	8.780	18.912	10.503	10.603	21.106
Transportation Supplemental	0.000	1.620	1.620	0.000	0.000	0.000
School Foods	0.626	0.642	1.268	0.660	0.662	1.322
Gifted & Talented	0.138	0.161	0.299	0.300	0.000	0.300
Secondary Vo-Ed	0.647	0.647	1.294	1.300	0.000	1.300
Adult Basic Education	0.247	0.249	0.495	0.500	0.000	0.500
In-State Treatment ***	0.525	1.411	1.937	1.950	0.000	1.950
SIMMS	0.500	0.500	1.000	0.500	0.500	1.000
METNET(OPI Admin)	0.177	0.223	0.400	0.200	0.200	0.400
School Audits	0.140	0.200	0.340	0.148	0.154	0.302
Other	0.322	0.678	1.000	0.600	0.600	1.200
Total	$448.078	$452.920	$900.999	$461.866	$462.656	$924.522

* Includes continuing appropriation authority and one-time expenditures not shown in GF/SEA balance sheets in fiscal 1994 and fiscal 1995. Excludes OPI Administration.
** Reflects move of $45,000 of medicaid match to DFS in fiscal 1995 and 1997 biennium.[1]
*** Reflects move of $700,000 of medicaid match to DCHS in fiscal 1995 and 1997 biennium.[1]

[1] Effective in fiscal 1996, as a result of the human services reorganization bill (SB 345), human services functions were transferred from the Department of Corrections and Human Services (which becomes the Department of Corrections on July 1, 1996) and the Department of Family Services (which is eliminated by the reorganization) to the Department of Public Health and Human Services.

LONG-RANGE PLANNING

The 1995 legislature approved over $239.65 million worth of grants, loans, and capital projects for Long-Range Planning (LRP). The Long-Range Building Program (LRBP) alone included $198.39 million in spending authority for capital projects -- resulting in the largest building program ever approved. Following is a summary of each LRP program; more detailed information can be found in Section F of this document (Volume II).

Long-Range Building Program

Historically, the LRBP has been funded with cigarette tax revenues, state and federal special revenues, and other miscellaneous funding sources such as private donations and auxiliary funds. Due to the passage of HB 19, the LRBP will also receive 12 percent of annual coal tax revenues, estimated at $10.50 million for the 1997 biennium. The majority of this coal tax allocation will be used to pay debt service on capital projects, with the remainder to be used for repair and maintenance. There were a total of six pieces of legislation authorizing capital projects, as shown in Table 1.

Table 1
Long-Range Building Program
1997 Biennium
All Capital Projects
(In Millions)

* House Bill 5 Capital Projects - "Cash"	$116.476
House Bill 15 Capital Projects - "Bonded"	32.865
House Bill 584 Law Enforcement Academy	1.450
House Bill 585 Regional Correctional Facilities	9.000
House Bill 594 MT State Hospital	21.000
House Bill 603 University System - Authority Only	14.100
Total	$194.891

* This amount excludes a $3.5 million general fund appropriation to OPI for state advances and reimbursements for school facilities.

Treasure State Endowment Program

The Treasure State Endowment Program (TSEP) is administered by the Department of Commerce, and all financing assistance awards must be approved by the legislature in accordance with section 90-6-7, MCA. TSEP is funded with investment earnings on the Treasure State Endowment Trust. The Trust receives 50 percent of coal severance tax revenues deposited into the coal severance tax permanent fund. Nearly $5.00 million in TSEP grants were awarded to local governments by the 1995 legislature in HB 11. Infrastructure projects receiving TSEP financing include: drinking water systems, wastewater treatment, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, and bridges. Although TSEP funding can be requested for grants and loans, no loan applications were received for the 1997 biennium.

Oil Overcharge

Oil overcharge funds are allocated to the state by the federal Department of Energy (DOE) as a result of federal court action requiring certain oil producers to pay restitution for violation of federal oil price and allocation controls that occurred between 1973 and 1981. These funds cannot be used to replace state funds and may only be used for programs authorized under federal law. The state uses the oil overcharge money to supplement state and federal programs administered by the state, in a manner consistent with federal court orders (section 90-4-210, MCA). DEQ is responsible for administering the spending of oil overcharge receipts.

Because the majority of oil overcharge litigation is complete and most of the funds have been received, DEQ estimates that approximately $250,000 in funding will be available for the 1997 biennium. The 1995 legislature approved a total of $385,000 in new appropriations, however, should additional settlements be reached and funding become available. Programs receiving oil overcharge funding include:

1.	Energy Share of Montana, Inc.	$ 50,000
2.	Petroleum Substitutes	10,000
3.	Institutional Conservation Program	200,000
4.	NMC Tractor Resource Center	125,000
		$385,000

Resource Indemnity Trust Interest Accounts

Two programs receiving interest earnings from the Resource Indemnity Trust (RIT) are: 1) the Renewable Resources Grant and Loan Program (RRGL); and 2) the Reclamation and Development Grant Program (RDGP).[1]

RRGL

By statute, the RRGL receives $2.00 million in RIT investment income for the purpose of awarding RRGL grants. Loans made under the RRGL are financed with coal severance tax backed state bonds. The purpose of projects qualifying for RRGL funding is "to enhance Montana's renewable resources through projects that measurably conserve, develop, manage, or preserve resources (section 85-1-602, MCA). The 1995 legislature approved $1.91 million in RRGL grants in HB 6 and $24.70 million worth of loans in HB 8. HB 6 allows the use of any excess grant funds in the renewable resource grant and loan state special revenue account for other authorized purposes.

RDGP

The RDGP was established to fund projects that: 1) repair, reclaim, and mitigate environmental damage to public resources from non-renewable resource extraction; and 2) develop and ensure the quality of public resources for the benefit of all Montana citizens. By statute, the RDGP receives $3.00 million in RIT investment income to be used for grant awards. The 1995 legislature awarded $3.10 million in HB 7, with projects receiving funding in priority order.

Cultural and Aesthetic Grant Program

The Cultural and Aesthetic Grant Program, administered by the Montana Arts Council (MAC), is funded by the interest from a non-expendable trust which receives coal severance tax revenues. By statute, the interest from the Cultural Trust is to be appropriated for protection of works of art in the state capitol and other cultural and aesthetic projects in accordance with Title 15, Chapter 35, Part 1 of the MCA. HB 9 appropriates $567,720 in cultural and aesthetic grants for the 1997 biennium.

[1] For more information on the Resource Indemnity Trust Fund, see the Department of Natural Resources and Conservation narrative, Volume II, Section C.

STATE EMPLOYEE PAY PLAN - HOUSE BILL 17

The Fifty-fourth Legislature approved a comprehensive state employee compensation bill -- HB 17. The legislation addresses several areas:

1) adjustments in compensation for employees on one of several state pay matrices;

2) pay adjustments for elected officials;

3) pay adjustments for district judges and Supreme Court justices; and

4) an adjustment for reimbursement for legislator expenses (per diem).

Table 1 shows total appropriations for each government branch in the 1997 biennium. In addition, $30,000 of general fund was appropriated to the Department of Administration, including: 1) $10,000 for changes to the payroll/personnel/position control system; and 2) $20,000 for the biennial survey of state employee salaries (required since fiscal 1992).

Table 1
Appropriations by Recipient
1997 Biennium

	--- Fiscal 1996 ---		--- Fiscal 1997 ---		--- Biennial ---	
Recipient	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Legislative Branch	$111,693	$74,924	$279,436	$143,335	$391,129	$218,259
Judiciary	175,407	9,565	281,401	23,291	456,808	32,856
University System	2,186,361	1,405,233	4,565,478	2,876,264	6,751,839	4,281,497
OBPP*	2,441,914	3,803,043	6,486,487	10,785,119	8,928,401	14,588,162
Total	$4,915,375	$5,292,765	$11,612,802	$13,828,009	$16,528,177	$19,120,774

*All executive branch agencies. To be distributed by the Office of Budget and Program Planning (OBPP).

HB 17 also requires that several additional salary surveys be conducted in the 1997 biennium and at regular intervals thereafter -- elected officials, judges of courts of general jurisdiction, and legislator living expenses. The results of these surveys will be the mechanism by which future adjustments are triggered, and are discussed in the sections that follow.

Table 2 shows the total funds added to fund the pay plan, by recipient. OBPP is appropriated funds to distribute to all executive branch agencies. The Judiciary includes all of the judicial branch, including Supreme Court operations and district judges' salaries.

Table 2
Appropriations to Fund HB 17
1997 Biennium

Purpose	--- Fiscal 1996 --- General Fund	Other Funds	--- Fiscal 1997 --- General Fund	Other Funds	--- Biennial --- General Fund	Other Funds
Market/Progression/Longevity*	$4,751,591	$5,281,749	$11,372,724	$13,808,537	16,124,315	$19,090,286
Elected Officials	7,501	7,479	18,054	14,474	25,555	21,953
Judges and Justices**	156,283	3,537	222,024	4,998	378,307	8,535
Legislator Expenses***						
Total	$4,915,375	$5,292,765	$11,612,802	$13,828,009	$16,528,177	$19,120,774

*Includes increased salary of county attorney training coordinator of $15,060 in fiscal 1996 and $16,930 in fiscal 1997 (general fund).
**Includes Clerk of Supreme Court increase (elected official) of $1,199 in fiscal 1996 and $2,887 in fiscal 1997 (general fund).
***No additional appropriation was made in HB 17. Any additional costs will be funded in the bill appropriating funds to operate the 1997 legislature, commonly referred to as the "feed bill".

Employees on Pay Matrices

Most state employees' salaries are determined by one of several salary matrices. The most widely used matrix, the general matrix (statewide plan), consists of an entry and market level salary for each of several grades. (Jobs are assigned to one of the 25 grades based upon required skill levels.) The legislature adopted a market "grid" to determine salaries within this matrix (explained below). The use of this grid also includes provision of progression increases. In addition, HB 17 includes other measures to adjust salaries. Finally, HB 17 includes a reduction in insurance contributions to be paid by the state.

The following discussion is divided into two parts: 1) changes resulting in salary adjustments, including the market grid; and 2) insurance contributions.

Changes Resulting in Salary Adjustments

Market Grid and Progression Increase

HB 17 implements a mechanism on October 1, 1995 by which individual employees receive a market progression salary adjustment by using a market grid. Table 3 shows the components of the market grid, using a sampling of grade levels. As shown in the grid, those positions at lower grade levels would require fewer years of service before 100 percent of market is reached. However, these positions are also currently closer to market.

The horizontal line represents an employee's years of service, while the vertical represents an employee's grade. The individual numbers within the grid are "target" market ratios that reflect a percent of market salary. Individual salary increases are determined by comparing an employee's current base salary to the salary in the grid that corresponds to an employee's grade level and years of state service.

Table 3
Sample of Market Grid
1997 Biennium

TARGET INCREMENTS

Grade	Years 0	1	2	3	4	5	6	7	8	9	10
4	0.844	0.874	0.904	0.935	0.967	0.999	1.000	1.000	1.000	1.000	1.000
6	0.84	0.868	0.895	0.925	0.965	0.985	1.000	1.000	1.000	1.000	1.000
8	0.836	0.862	0.889	0.916	0.944	0.972	1.000	1.000	1.000	1.000	1.000
12	0.828	0.851	0.875	0.899	0.924	0.949	0.976	1.000	1.000	1.000	1.000
15	0.822	0.844	0.866	0.888	0.911	0.934	0.958	0.982	1.000	1.000	1.000
18	0.816	0.836	0.857	0.878	0.899	0.921	0.943	0.966	0.989	1.000	1.000
22	0.808	0.827	0.846	0.866	0.886	0.906	0.927	0.948	0.97	0.992	1.000

For example, a grade 15 employee with 5 years of service has a target increment that is 93.4 percent of the market rate, according to the grid. If the employee's salary is below that target increment, the employee will receive an increase to either reach 93.4 percent or receive a capped maximum 5 percent increase, whichever is less. Those employees furthest behind their target ratios receive the largest increase. Because professional and technical positions are consistently paid less than their corresponding target increment, those positions will generally receive the highest increases. Because lower-grade employees are currently closer to market vis-a-vis their years of service, salary increases for these employees will generally be less. It should be noted that any progression increases beyond the 1997 biennium will not be automatic. If the legislature does not authorize and fund progression increases, they will not take place.

Teachers, Blue Collar, Retail Clerks (Liquor Store)

Teachers at state institutions have unique pay matrices based upon years of service and educational level, with increases given for each additional year of service. Under HB 17, all teachers employed at state facilities will advance one step in the pay period in which October 1 falls, on the appropriate pay matrix. Blue collar employees receive a cents-per-hour increase of $0.295 in fiscal 1996 and $0.434 in fiscal 1997. Retail clerks will also receive a cents-per-hour increase. (Because of the passage of HB 574, liquor store retail clerks will no longer be state employees after December 31, 1995. Consequently, this adjustment will only be in effect for three months.)

Adjustment in Market

The legislature provided an adjustment in total entry and market salaries of 2.5 percent beginning in October, 1996 (fiscal 1997). Therefore, not only will employees receive a progression increase at that time, the market level used as a target will increase. In addition, no employee will lose market share. For example, if an employee was at 100 percent of market, and at 98.5 percent after the market adjustment, the employee will receive an increase necessary to remain at 100 percent. The impact of this maintenance is that all employees will receive at least a 2.5 percent increase in fiscal 1997. In fiscal 1997, the salary cap is raised to 6 percent.

Longevity Increase

Longevity is an adjustment to salaries based upon a specified length of service. In the 1995 biennium, this adjustment totaled 0.9 percent of base salary multiplied by the number of completed, contiguous 5-year periods of uninterrupted state service (or $10 per month, whichever was greater). Beginning on the first pay period that includes October 1, 1995, employees will receive 1.5 percent of base salary for each complete, contiguous 5 years of uninterrupted service beginning on September 30, 1995 (fiscal 1996). The anticipated cost of this increase is over $4.5 million in the 1997

biennium and about $6.5 million in the 1999 biennium.

Insurance Contributions

The State of Montana contributes toward health, dental, and life insurance for employees. The state contributed $210 per month for each full-time employee in fiscal 1994, and $230 per month in fiscal 1995. In the 1997 biennium, the state's contribution will total $220 per month in fiscal 1996 and $225 per month in fiscal 1997. Insurance benefits to employees will not be reduced. The anticipated savings from this reduction is over $1.8 million over the biennium. Yearly savings thereafter are about $0.6 million. It should be noted, however, that agency budgets were not reduced in anticipation of this savings. All agencies remain budgeted in the 1997 biennium at $230 per month for each full-time employee. Consequently, these additional funds will be available to agencies, either to fund any unfunded pay plan costs, or for other agency uses.

Pay Adjustments for Elected Officials

Elected officials' salaries are provided for in statute. HB 17 adjusts statute to provide salary increases for these positions. Table 4 compares current salaries to 1997 biennium salaries as included in HB 17. The first increase totals 2.9 percent, with a further 3.9 percent increase. However, unlike adjustments in state employees' salaries, which take place in October of each fiscal year, these adjustments both take place in fiscal 1996: the first increase is effective at the beginning of the fiscal year (July 1, 1995), while the second is effective at mid-year (January 1, 1996). Consequently, the first increase is in effect for 3 months, and the second for 9 months, longer than comparable increases for other state employees.

Table 4
Elected Officials Salaries
1997 Biennium

Position	Current Salary	After 7/1/95	After 1/1/96
Governor	$55,502	$57,084	$59,310
Lt. Governor	40,466	41,619	43,242
Attorney General	50,841	52,290	54,329
State Auditor	37,526	38,595	40,101
Supt of Public Instruction	44,177	45,436	47,208
Public Service Comm. Chair	41,750	42,940	44,615
Public Service Commission	40,466	41,619	43,242
Secretary of State	37,526	38,595	40,101
Clerk of Supreme Court	36,537	37,578	39,044

HB 17 also provides a mechanism for adjusting salaries each biennium. The legislation requires that a survey be conducted on June 30 of each even-numbered year, beginning in fiscal 1997, of similar executive branch officials' salaries in North and South Dakota, Wyoming, and Idaho. The average of these salaries and current Montana salaries will be used to determine Montana salaries, if this average is greater than the current salary paid to the Montana official.

District Judge and Supreme Court Justice Pay Adjustment

HB 17 provides for an increase in the compensation paid to district and Supreme Court justices. The increases, shown in Table 5, are equivalent to 2.9 percent in fiscal 1996 and 3.9 percent in fiscal 1997. As with elected officials, these adjustments are effective on July 1, 1995 and January 1, 1996, respectively.

Table 5
Adjustments to Judge/Justice Salaries
1997 Biennium

Position	Current Salary	After 7/1/95	After 1/1/96
District Judge	$63,178	$64,979	$67,513
Supreme Court - Chief Justice	65,722	67,595	70,231
Supreme Court - Justice	64,452	66,289	68,874

The bill also requires a survey of the compensation paid to judges of courts of general jurisdiction, and of justices and the chief justice of the highest appellate courts similar to the Montana Supreme Court in North and South Dakota, Wyoming and Idaho. The average of those compensation levels, plus the current Montana salaries, will be used to determine Montana salaries if the average is greater than the current salary paid to the Montana official.

Legislator Per Diem Adjustment

Legislators are currently paid $50 for living expenses for each legislative day. (Legislators also receive a mileage allowance, and a salary equivalent to the entry rate of a grade 8 classified employee, or $57 per day during the 1995 legislative session.) HB 17 provides for a survey of North and South Dakota, Wyoming, and Idaho to determine the average living allowance for legislators in those states and in Montana. Beginning on January 1, 1997, legislators will receive this average compensation. Consequently, if increased compensation is required as a result of the survey, additional expenses will appear in the bill appropriating funding to operate the 1997 legislature (the "feed" bill). No estimated costs of this change are currently available.

State Employee Pay Plan - Funding

Most of the costs of the 1997 biennium pay plan are funded through reductions in personal services. The reductions are in the form of vacancy savings and FTE reductions totaling over $29 million for the biennium. Table 6 shows the total reductions in fiscal 1996 compared to total fiscal 1996 appropriated personal services (prior to any personal services reductions), by type of reduction. It should be noted that the table does not include any personal services reductions initially approved by the legislature for those proprietary-funded programs that no longer require an appropriation as a result of the passage of HB 576. However, the appropriation was not adjusted to remove funding for these programs. For a further discussion of that bill, see the "HB 576" section of this volume.

Table 6
Total Personal Services Reductions to Fund Pay Plan
1997 Biennium

Agency Name	Total Adjusted FY 96 PS	Due To Vacancy Savings	Percentage Reduction	Due To FTE Reductions	Percentage Reduction	Total Percentage Reduction
Legislative Auditor*	$2,365,824		0.0%	$155,463	6.6%	6.6%
Legislative Fiscal Analyst*	704,996	$24,281	3.4%		0.0%	3.4%
Legislative Council*	1,626,439		0.0%	54,138	3.3%	3.3%
Environmental Quality Council*	229,436		0.0%	34,219	14.9%	14.9%
Consumer Counsel	284,523		0.0%		0.0%	0.0%
Judiciary	5,295,422	77,289	1.5%		0.0%	1.5%
Governor's Office	2,317,675		0.0%	105,256	4.5%	4.5%
Secretary of State	20,158		0.0%		0.0%	0.0%
Commissioner of Political Practices	223,272		0.0%		0.0%	0.0%
State Auditor	2,151,964	52,161	2.4%	52,260	2.4%	4.9%
Office of Public Instruction	4,520,455	217,509	4.8%		0.0%	4.8%
Crime Control Division	671,234		0.0%		0.0%	0.0%
Department of Justice	23,481,348	1,037,088	4.4%	8,598	0.0%	4.5%
Public Service Regulation	1,517,275		0.0%		0.0%	0.0%
Board of Public Education	147,128		0.0%		0.0%	0.0%
Montana University System - Lump Sum	134,264,870	1,421,916	1.1%	269,033	0.2%	1.3%
Agricultural Experiment Station	8,411,698	210,293	2.5%		0.0%	2.5%
Extension Service	4,663,632	117,463	2.5%		0.0%	2.5%
Forestry & Conservation Exp Station	628,660	0	0.0%		0.0%	0.0%
Bureau of Mines	1,517,260	27,143	1.8%		0.0%	1.8%
Fire Services Training School	204,113		0.0%		0.0%	0.0%
School for the Deaf and Blind	2,827,364	113,365	4.0%		0.0%	4.0%
Montana Arts Council	312,211		0.0%		0.0%	0.0%
Library Commission	747,993	37,030	5.0%		0.0%	5.0%
Vocational Education Council	100,337		0.0%		0.0%	0.0%
Historical Society	1,532,404	58,905	3.8%	17,201	1.1%	5.0%
Fish, Wildlife and Parks	18,279,816	457,622	2.5%	247,949	1.4%	3.9%
Environmental Quality	13,582,940	352,803	2.6%	275,613	2.0%	4.6%
Transportation	65,940,586	310,192	0.5%	2,731,989	4.1%	4.6%
Livestock	4,220,247	102,254	2.4%	92,817	2.2%	4.6%
Natural Resources and Conservation	16,421,711	399,768	2.4%	368,079	2.2%	4.7%
Revenue	19,116,806	813,945	4.3%	109,429	0.6%	4.8%
Administration	4,751,047	50,214	1.1%	95,578	2.0%	3.1%
Appellate Defender	70,109		0.0%		0.0%	0.0%
Public Employees Retirement Board	645,881		0.0%	50,915	7.9%	7.9%
Teachers Retirement Board	338,403	6,553	1.9%	10,260	3.0%	5.0%
Agriculture	3,500,275	137,328	3.9%	27,601	0.8%	4.7%
Corrections	30,979,798	160,654	0.5%	1,284,405	4.1%	4.7%
Commerce	5,952,182	23,663	0.4%	33,991	0.6%	1.0%
Labor and Industry	19,474,713	207,010	1.1%	598,016	3.1%	4.1%
Military Affairs	3,135,113	33,812	1.1%	124,505	4.0%	5.0%
Public Health and Human Services	89,191,163	290,418	0.3%	1,269,087	1.4%	1.7%
TOTALS	$496,368,481	$6,740,679	1.4%	$8,016,402	1.6%	3.0%

*The legislature made these personal services reductions, but did not specify that they were to fund the pay plan.

STATE EMPLOYEES (FTE)

Excluding the Montana University System (MUS), the legislature reduced the number of state employees funded[1] in HB 2 for the 1997 biennium by nearly 701 FTE from the level authorized for the previous biennium, as shown in Table 1. However, 735 of the FTE reductions are due to moving continuing FTE off budget or out of HB 2, and do not represent a reduction in overall statewide FTE levels. When these FTE transfers are excluded, the total employees funded for the 1997 biennium increases by 34 FTE. By comparison, the previous two legislatures authorized 312.24 fewer FTE for the 1995 biennium than were included in fiscal 1993 and 237.27 more FTE for the 1993 biennium than were included in fiscal 1991.

[1] While the legislature considers and adopts FTE levels in approving state agency budgets, the legislature does not actually appropriate FTE, but rather appropriates funding for those FTE. Actual FTE levels are determined by the executive branch, judiciary, legislative agencies, and the Montana university system. FTE are also added throughout the biennium through administrative appropriations, legislative contract authority, supplemental appropriations, and budget amendments.

STATE EMPLOYEES (FTE)

Table 1
Comparison of FTE Funded in General Appropriations Act*
Fiscal 1994 through Fiscal 1997

Agency	1993 Special Session FTE 1994	FTE 1995	1995 Regular Session FTE 1996	FTE 1997	Difference (from FY95) FY96	FY97
State Agencies						
Dept. of Agriculture	107.16	105.83	108.49	108.49	2.66	2.66
Dept. of Natural Res. & Cons.	493.76	490.85	484.13	478.05	(6.72)	(12.80)
DSL	300.84	300.93	302.13	296.05	1.20	(4.88)
DNRC	192.92	189.92	182.00	182.00	(7.92)	(7.92)
Governor's Office	49.25	49.25	52.25	52.25	3.00	3.00
Department of Justice	656.70	652.55	662.05	662.05	9.50	9.50
Office of Public Instruction	134.73	134.73	115.68	112.68	(19.05)	(22.05)
Dept. of Commerce	335.69	335.03	171.89	171.89	(163.14)	(163.14)
Dept. of Military Affairs	98.94	97.65	94.90	94.90	(2.75)	(2.75)
Historical Society	48.38	48.13	49.13	49.13	1.00	1.00
Highway Traffic Safety	8.50	8.50	0.00	0.00	(8.50)	(8.50)
Dept. of Administration	311.51	315.76	93.46	93.46	(222.30)	(222.30)
Public Employees' Retire. Board	22.00	21.00	19.50	19.50	(1.50)	(1.50)
Public Health & Human Services	2,762.16	2,773.96	2,757.41	2,715.71	(16.55)	(58.25)
SRS	944.45	988.45	978.95	953.95	(9.50)	(34.50)
OFS	399.70	367.45	383.70	388.70	16.25	21.25
DHES	161.92	161.97	163.97	163.97	(8.00)	(8.00)
DCHS	1,256.09	1,256.09	1,240.79	1,219.09	(15.30)	(37.00)
Dept. of Corrections	833.44	823.44	881.77	881.52	58.33	58.08
DCHS	625.96	615.96	702.71	702.46	86.75	86.50
DFS	207.48	207.48	179.06	179.06	(28.42)	(28.42)
Council on Vocational Education	2.50	2.50	2.50	2.50	0.00	0.00
Secretary of State	34.30	34.30	1.00	1.00	(33.30)	(33.30)
Public Service Regulation	44.50	44.50	39.50	39.50	(5.00)	(5.00)
Teachers' Retirement Board	11.50	11.50	11.00	11.00	(0.50)	(0.50)
Appellate Defender	0.00	0.00	2.00	2.00	2.00	2.00
Dept. of Environmental Quality	392.05	397.05	366.55	366.55	(30.50)	(30.50)
DSL	55.43	55.43	54.43	54.43	(1.00)	(1.00)
DNRC	47.50	47.50	44.50	44.60	(3.00)	(3.00)
DHES	289.12	294.12	267.62	267.62	(26.50)	(26.50)
State Mutual Ins. Fund ***	0.00	0.00	0.00	0.00	0.00	0.00
Dept. of Livestock	122.71	123.71	126.71	126.71	3.00	3.00
Crime Control Division	19.00	19.00	20.00	20.00	1.00	1.00
Comm. of Higher Education	84.95	87.95	72.55	72.55	(15.40)	(15.40)
Legislative Fiscal Analyst	16.80	16.80	15.80	15.80	(1.00)	(1.00)
Board of Public Education	4.00	4.00	4.00	4.00	0.00	0.00
Dept. of Transportation	1,933.75	1,933.75	1,778.81	1,779.81	(154.94)	(153.94)
State Auditor	72.75	73.00	62.00	62.00	(11.00)	(11.00)
Legislative Council	42.97	48.14	40.97	46.14	(7.17)	(2.00)
School for the Deaf & Blind	81.68	81.68	81.68	81.68	0.00	0.00
Dept. of Revenue**	669.39	614.89	640.89	641.39	26.00	26.50
Montana Arts Council	9.97	9.97	10.00	10.00	0.03	0.03
Library Commission	28.50	28.50	28.50	28.50	0.00	0.00
Judiciary	89.25	89.25	97.75	97.25	8.50	8.00
Environmental Quality Council	6.50	6.50	5.00	5.00	(1.50)	(1.50)
Commissioner of Pol. Practices	3.25	3.25	7.25	7.25	4.00	4.00
Dept. of Fish, Wildlife, & Parks	554.95	553.37	542.43	547.43	(10.94)	(5.94)
Dept. of Labor and Industry	659.00	659.00	595.00	598.00	(64.00)	(61.00)
Legislative Auditor	63.50	63.50	56.50	56.50	(7.00)	(7.00)
Consumer Counsel	5.25	5.25	5.00	5.00	(0.25)	(0.25)
Sub-total State Agency FTE	10,815.24	10,768.04	10,104.05	10,067.19	(663.99)	(700.85)
Montana University System ****	3,647.28	3,647.28	3,909.87	3,914.28	262.59	267.00
Total State FTE	14,462.52	14,415.32	14,013.92	13,981.47	(401.40)	(433.85)

* Excludes FTE which may be added through budget amendments, legislative contract authority or other operational changes.

** Excludes liquor store employees.

*** Statutorily appropriated.

**** Regent approved operating plan for fiscal 1995 shown for fiscals 1994 and 1995. Fiscals 1996 and 1997 as stated in the Executive Budget.

STATE EMPLOYEES (FTE)

As shown in Table 2, a number of factors cause the change in FTE, including:

1) moving certain functions supported by proprietary funds off budget to comply with HB 576 (which does not represent a reduction in overall FTE levels);

2) personal services reductions adopted to fund the 1997 biennium pay plan (HB 17);

3) excluding funding for FTE funded with lodging facility use tax (accomodations tax) in the Departments of Commerce and Fish, Wildlife, and Parks that were already appropriated by statute;

4) privatization of youth services in the Department of Public Health and Human Services and of laundry operations in the Department of Corrections, with the corresponding replacement of current FTE with contracts;

5) anticipated savings from reorganizations of the natural resources agencies (SB 234) and the human services agencies (SB 345);

6) implementation of new or expanded programs through new proposals. The major increases in FTE occur in the Department of Corrections for expanded prison and community corrections programs, and the Department of Justice for additional patrol officers and implementation or expansion of various other programs;

7) executive adjustments to the fiscal 1994 base used to establish present law, including elimination of certain one-time positions not continuing in the 1997 biennium;

8) elimination of certain statutory appropriations in compliance with SB 83, which required the associated FTE to be funded with legislative appropriations in HB2; and

9) changes reflecting the net present law FTE added or eliminated by the legislature.

Table 2
FTE Changes
1995 to 1997 Biennium

Item	Differences from FY 95 FY96	FY97
State Agencies		
HB 576 (proprietary funds)**	(704.64)	(708.64)
Personal services reductions	(201.68)	(209.68)
Bed tax-Statutorily approp.	(26.32)	(26.32)
Privatization - Youth Services	(23.42)	(23.42)
Privatization - Laundry	(18.50)	(18.50)
Reorganization-SB 345	0.00	(25.00)
Reorganization-SB 234	0.00	(9.08)
New proposals	281.98	283.78
Executive base adjustments	17.64	25.06
SB 83	1.33	1.33
Other *	9.62	9.62
Subtotal	(663.99)	(700.85)
MUS	262.59	267.00
Total	(401.40)	(433.85)

* Net of 1997 biennium legislative present law increases and decreases
** This total reflects the difference from fiscal 1995. It differs from the table in the "Proprietary Fund Elimination" narrative, which reflects the reduction from the published Executive Budget.

The change in the MUS is shown for informational purposes. This change represents changes in FTE as included in the Executive Budget. However, the legislature does not establish or imply an FTE level when appropriating funds for operation of the MUS.

Additional detail about HB 576, SB 234, SB 345, and SB 83 is provided in this volume and in the agency narratives within Sections A through E of Volumes I and II. Individual agency FTE changes are also explained in Sections A through E.

REORGANIZATIONS

The legislature approved two major departmental and several minor program reorganizations, all effective in fiscal 1996. The departmental reorganizations will bring about significant organizational changes for natural resources and human services agencies, with the elimination of four agencies, the creation of two new agencies, and the change in mission and scope in two other retained agencies.

Human Services

SB 345 reorganized delivery of human services programs by creating a new Department of Public Health and Human Services (PHHS) and changing the mission of the Department of Corrections and Human Services (DCHS), now called the Department of Corrections (DOC). DOC retains all adult corrections activities and assumes all juvenile corrections from the Department of Family Services (DFS). PHHS is created to administer all other duties of DCHS and all functions of the Departments of Social and Rehabilitation Services (SRS) and Family Services (DFS), and the public health activities of the Department of Health and Environmental Sciences (DHES). SRS and DFS are eliminated. (The impact of this bill, along with the natural resources reorganization, is also to eliminate DHES.) Total anticipated savings of 25.0 FTE and $825,000 in fiscal 1997 were removed from the budget.

The following table shows the transfer of programs from current agencies to create the new PHHS, and the remaining programs in DOC.

Table 1
Human Services Reorganization
1995 Legislature

Prior Agency	Program	To	Reorganized Agency	Program	From
SRS	Family Assistance	PHHS	PHHS	Family Assistance	SRS
	Eligibility Determination	PHHS		Eligibility Determination	SRS
	Director's Office	PHHS		Director's Office	SRS
	Child Support Enforcement	PHHS		Child Support Enforcement	SRS
	State-Assumed Co. Admin.	PHHS		State-Assumed Co. Admin.	SRS
	Medical Assistance	PHHS		Medical Assistance	SRS
	TDD Program	PHHS		TDD Program	SRS
	Operations & Technology	PHHS		Operations & Technology	SRS
	Vocational Rehabilitation	PHHS		Vocational Rehabilitation	SRS
	Disability Determination	PHHS		Disability Determination	SRS
	Visual Services	PHHS		Visual Services	SRS
	Developmental Disabilities	PHHS		Developmental Disabilities	SRS
	DD Advisory Council	PHHS		DD Advisory Council	SRS
DFS	Management Support Ser.	PHHS		Management Support Ser.	DFS
	Regional Administration	PHHS		Regional Administration	DFS
	Juvenial Corrections	DOC		Program Management	DFS
	Program Management	PHHS		Health Services	DHES
DHES	Health Services	PHHS		Family/Mtrnal. & Child Health	DHES
	Family/Mtrnal. & Child Health	PHHS		Preventive Health	DHES
	Preventive Health	PHHS		Health Facilities	DHES
	Health Facilities	PHHS		Director's Office (portion)	DHES
	Director's Office (portion)	PHHS		Central Operations (portion)	DCHS
DCHS	Central Operations (portion)	PHHS		Mental Health	DCHS
	Central Operations (portion)	DOC		Chemical Dependency	DCHS
	Corrections	DOC		Special Services	DCHS
	Mental Health	PHHS	DOC	Central Operations (portion)	DCHS
	Chemical Dependency	PHHS		Corrections	DCHS
	Special Services	PHHS		Juvenial Corrections	DFS

Natural Resources

SB 234 reorganizes natural resource functions of the Departments of State Lands (DSL), DHES, and Natural Resources and Conservation (DNRC). This bill creates the Department of Environmental Quality (DEQ) to enforce environmental laws and regulations, and shifts certain natural resource management functions to DNRC. DSL is eliminated. Total anticipated savings of 9.08 FTE and $300,392 in fiscal 1997 were removed.

The following table shows the transfer of programs to create the new DEQ and the expanded DNRC.

Table 2
Natural Resources Reorganization
1995 Legislature

Prior Agency	Program	To	Reorganized Agency	Program	From
DSL	Central Managment (portion)	DEQ	DNRC	Centralized Services (portion)	DNRC
	Central Managment (portion)	DNRC		Oil & Gas Conservation	DNRC
	Reclamation	DEQ		Con. & Resource Develop.	DNRC
	Land Administration	DNRC		Water Resources	DNRC
	Forestry	DNRC		Reserved Water Rights	DNRC
DNRC	Centralized Services (portion)	DNRC		Central Managment (portion)	DSL
	Oil & Gas Conservation	DNRC		Land Management	DSL
	Con. & Resource Develop.	DNRC		Forestry	DSL
	Water Resources	DNRC	DEQ	Director's Office (portion)	DHES
	Reserved Water Rights	DNRC		Central Services (portion)	DHES
	Centralized Services (portion)	DEQ		Air Quality	DHES
	Energy Division	DEQ		Environmental Remediation	DHES
DHES	Director's Office (portion)	DEQ		Water Quality	DHES
	Central Services (portion)	DEQ		Petroleum Tank Release Bd.	DHES
	Air Quality	DEQ		Waste Management	DHES
	Environmental Remediation	DEQ		Centralized Services (portion)	DNRC
	Water Quality	DEQ		Energy Division	DNRC
	Petroleum Tank Release Bd.	DEQ		Central Management (portion)	DSL
	Waste Management	DEQ		Reclamation	DSL

REORGANIZATIONS

Other Reorganization Bills

HB 68 moves two functions to the Department of Commerce: 1) licensure and inspection duties for construction blasters, boiler and steam engine operators, and crane and hoist operators from the Department of Labor and Industry; and 2) fire prevention and investigation licensure duties from the Department of Justice.

HB 280 transfers the Milk Control Bureau to the Department of Livestock from the Department of Commerce.

HB 563 transfers bad debt and warrant writing functions from the Office of the State Auditor to the Department of Administration. A total of 1.0 FTE and $42,100 over the biennium was removed due to anticipated savings.

SB 4 transfers the Indian Affairs Coordinator from the Department of Commerce to the Governor's Office.

SB 361 transfers administration of the Highway Traffic Safety Division from the Department of Justice to the Department of Transportation.

All reorganizations are reflected in the agency narratives in volumes I and II of the Legislative Fiscal Report, as well as the gray copy of HB 2 included at the end of Volume II.

In addition, SB 398 reorganizes the legislative branch by changing the composition of the Legislative Council, Legislative Audit, and the Environmental Quality Council committees, and consolidating all legislative staff agencies (with the exception of the Consumer Counsel) into one agency.

SENATE BILL 83

Senate Bill 378 (enacted by the 1993 legislature) requires the Legislative Finance Committee (LFC) to review each dedicated revenue provision (state special revenue accounts) to ensure that the accounts are terminated if they were no longer necessary, reflect legislative priorities for state spending, and are based upon sound principles of dedication. The LFC was also required to review statutory appropriations (those appropriations made in statute, rather than in temporary appropriations bills) to determine if the appropriations should be made through legislative appropriation. As a result of this review, SB 83 was introduced at the request of the LFC and enacted by the 1995 legislature. SB 83 revised the laws concerning dedicated revenue and statutory appropriations, and resulted in a significant reduction in both earmarked and statutory appropriations.

State Special Revenue (Earmarked) Accounts

The LFC reviewed state special revenue accounts to determine if any of the accounts should be eliminated. With elimination, the revenues that had gone to the account and been appropriated as state special revenue would be deposited to the general fund. Any program that had received an appropriation from the account would require a general fund appropriation. With the passage of SB 83, state special revenue appropriations were reduced, and general fund appropriations increased by like amounts. There is no total impact to the general fund, as revenues increase commensurate with the increased appropriation. However, since the programs would be funded from the general fund rather than an earmarked source, the legislature could better prioritize funding for the programs given available revenue and competing demands. Table 1 shows all revenue de-earmarked in SB 83, and the resulting change in funding source in HB 2.

Table 1
SB 83 - De-Earmarked Revenue
1997 Biennium

	1997 Biennium	
Action/Agency	General Fund	State Special
Family Services		
Domestic violence	$69,815	($69,815)
SRS		
Nursing facility fee	13,276,219	(13,276,219)
Livestock		
Inspection & control	40,000	(40,000)
Commerce		
Board of Horse Racing	14,000	(14,000)
FWP		
Game restitutions	137,328	(137,328)
Motorboat fines	14,306	(14,306)
Snowmobile fines	16,126	(16,126)
OHV fines	11,520	(11,520)
Board of Crime Control		
Juvenile detention admin	109,005	(109,005)
Victims programs	1,389,936	(1,389,936)
OPI		
METNET	400,000	(400,000)
Transportation	7,816,332	(7,816,332)
SIMMS	1,000,000	(1,000,000)
Total	$24,294,587	($24,294,587)

SENATE BILL 83

Statutory Appropriations

SB 83 also eliminated certain statutory appropriations in order to allow for legislative review of the programs and to provide specific appropriations. As a result, the appropriations in Table 2 were added to House Bill 2.

Table 2
SB 83 - Statutory Appropriations
1997 Biennium

Action/Agency	1997 Biennium General Fund	1997 Biennium State Special
Chiropractic Panel		$28,000
Agriculture		
Alfalfa seed		68,839
FWP		
1% of warden's salary	$48,785	
State Lands		
Recreational access		121,452
Board of Crime Control		
Juvenile detention grants	1,890,995	
Justice		
Breath analyzer machines	100,000	
Board of Public Education		
Research projects		160,000
OPI		
Equalization aid	580,360,000	
School district audits	301,904	
Total	$582,701,684	$378,291

HOUSE BILL 576

The legislature passed HB 576, which, among other features, eliminates the requirement in statute that certain funds be appropriated.

House Bill 2 Appropriations

Proprietary funds (internal service and enterprise funds) are those collected in return for the provision of a service or product, i.e. the provision of computer services to agencies of state government, or services for which a fee is charged (office rent, legal services, etc). HB 576 eliminates the requirement that proprietary funds be appropriated.

In previous biennia, funding related to certain services was double appropriated in HB 2: once in the programs paying the fees and charges, and again in the program providing the service in order to allow expenditure of funds collected. Appropriations to allow programs to pay fees and charges remain in HB 2. HB 576 eliminates the requirement for appropriation in the program providing the service. Consequently, funding for a number of programs has been removed from HB 2 in the 1997 biennium, that appears as expenditures in HB 2 in previous biennia. Table 1 lists the programs, related expenditures, and FTE removed.

HB 576 requires that the legislature establish fees and charges for all proprietary funded programs, and restricts those programs from increasing those fees and charges during the biennium. Because this legislation was introduced and passed late in the legislative session, the legislature did not specifically establish fees and charges for most proprietary funded programs in the 1997 biennium. All fees and charges are implied in the appropriation originally established. A discussion of those original appropriations and the implied fees and charges are presented in the individual program narratives in the "Appropriations by Agency and Program" section of this report.

House Bill 576
Reductions to House Bill 2
1997 Biennium

Agency/Program or Function	Expenditures 1997 Biennium	FTE + Fiscal 1997
Secretary of State		
Bus/Govt Svc - Records Mgmt	$3,858,555	40.80
Transportation		
Motor Pool	3,756,312	5.00
Equipment	30,422,248	122.00
Aeronautics	140,403	1.39
Revenue		
Liquor Division	524,781	2.00
Administration*		
Bad Debt Collections	401,059	6.00
Accounting/Mgmt Support	194,691	1.83
Procurement and Printing	20,572,358	47.71
Information Services	36,621,600	121.64
General Services	8,050,664	19.00
Central Mail	6,255,582	13.83
State Personnel	2,761,317	18.47
Risk Management/Tort Defense	6,301,653	12.00
Labor and Industry		
Mt. Career Information Center	324,617	2.00
Commissioner's Ofc/Central Svc	2,953,209	37.00
Health and Environmental Sciences**		
Director's Office	1,048,835	10.00
Central Services	3,012,300	30.50
Fish, Wildlife, Parks		
Administration and Finance	3,541,672	2.81
Field Services	362,216	
Parks	1,062,526	2.32
Commerce		
Professional/Occupational Lic.	2,399,249	29.75
Local Gov't Audit & Systems	563,873	4.00
Local Gov't Assistance	259,151	2.50
Health Facilities	325,912	1.00
Board of Housing	2,666,854	14.00
Board of Investments	3,753,037	29.00
Montana State Lottery	14,144,292	35.00
Director/Management Services	1,854,894	19.34
State Lands***		
Central Management	1,080,231	5.80
Agriculture		
Agricultural Sciences	11,270	0.00
Justice		
Agency Legal Services	1,495,537	16.50
Corrections		
Industries/Ranch-Dairy, etc.	11,686,486	34.00
Office of Public Instruction		
Centralized Services	2,108,534	19.55
Montana University System		
MUS Group Insurance	38,231,499	3.65
Total Proprietary Removed	$212,747,417	710.39

* Warrant writer functions, totaling over $1.5 million over the biennium, were switched to proprietary funds in the 1997 biennium. This function is included in HB 2, although it meets all criteria for exemption from the appropriations process.
** These functions were split between the new Departments of Public Health and Human Services, and Environmental Quality.
*** This function was split between the Department of Natural Resources and Conservation and the new Department of Environmental Quality.
\+ Includes all new proposals.

Statutory Appropriations

Under previous statute, the portion of taxes collected that must be allocated or distributed to local governments, school districts, authorities, or other local government entities, had to be appropriated. This appropriation was made through statutory appropriation. HB 576 eliminates the requirement for appropriation by classifying these funds as fiduciary funds, which do not require an appropriation. The following shows those funds statutorily appropriated in the 1995 biennium, but that a preliminary review by the Department of Administration indicates may be classified as fiduciary funds under this statute. The percentage of collections that are distributed and the total fiscal 1995 appropriation authority as established by the Office of Budget and Program Planning are also shown.

Table 2
HB 576 Statutory Appropriations to Fiduciary

Tax	Fiscal 1995 Approp. Authority	Distribution Method
Corporation Tax - Financial Institutions	$10,000,000	80%
Gambling License Fees	2,131,200	50%
Metal Mines	1,700,000	25%
Video Gaming Local Distribution	21,100,000	100%
Local Government Severance Tax - Oil and Gas	32,000,000	100%
Liquor License Tax	1,150,000	34%
Wine Tax	165,000	$0.0267

Neither the Executive Budget nor the LFA budget analysis included a general inflation factor for all operating expenses. Instead both offices applied inflation or deflation factors to specific expenditure items. The inflation/deflation factors were applied to the expenditure items for food, medical, and energy related items as well as proprietary items; books and reference material; and postage and mailing. All other operating cost items were not adjusted for inflationary impact.

The Executive and LFA staff agreed on inflation/deflation for these items in the summer of 1994 and presented them to the legislature. Except for two factors, the legislature adopted all the inflation/deflation factors presented to them.

The deflation factor for computer processing charges in the Department of Administration (DofA) was increased from 12 percent to 23 percent in fiscal 1997. In addition, the deflation factor for long distance charges in the DofA was increased from 13 percent to 26 percent.

The inflation factor used to inflate costs associated with postage and mailing will be below the actual increase in the costs incurred during the 1997 biennium. This is because the inflation factors utilized were based on an expectation that the federal government would increase postage stamp prices on January 1, 1996. However, the U.S. Postal Service increased stamp prices by 3 cents per postage stamp on January 1, 1995.

Table 1
Inflation/Deflation Factors, 1997 Biennium

Expenditure Code	Expenditure Category	Inflation Factors for: FY96	FY97
Food Related Inflation Items			
2117	Board & Room	1.037	1.064
2145	Food Service Expense	1.037	1.064
2205	Food	1.037	1.064
2251	Meat	1.037	1.064
2252	Dairy	1.037	1.064
2253	Produce	1.037	1.064
2254	Bakery	1.037	1.064
2264	Grocery	1.037	1.064
2275	Poultry	1.037	1.064
2278	Beverages	1.037	1.064
2279	Red Meat	1.037	1.064
2288	Canned Meat	1.037	1.064
2289	Staples	1.037	1.064
2291	Sea Foods	1.037	1.064
2292	Pork		
Energy Related Inflation Items			
2216	Gasoline	1.058	1.142
2242	Diesel Fuel	1.058	1.142
2297	Propane Vehicle Fuel	1.058	1.142
2601	Electricity		
	MPC Service Area(Default)	1.102	1.158
	MDU Service Area	1.030	1.061
2603	Natural Gas		
	MPC Service Area (Default)	1.082	1.125
	MDU Service Area	1.102	1.158
2604	Laboratory Gas	1.058	1.142
2607	Propane	1.058	1.142
2724	Oil	1.058	1.142
2731	Paint - Buildings	1.058	1.142
2732	Paint - Traffic Line	1.058	1.142
2738	Road Oil	1.058	1.142
2742	Oil Mixed Materials	1.058	1.142
Medical Related Inflation Items			
2106	Lab Testing	1.102	1.165
2116	Medical Services	1.102	1.165
2118	Medical Services	1.102	1.165
2119	Dentistry	1.102	1.165
2170	Prescription Services	1.102	1.165
2208	Lab Equipment & Supplies	1.102	1.165
2209	Med & Hospital Supplies	1.102	1.165
2222	Drugs	1.102	1.165
2265	Misc. Medications	1.102	1.165
Proprietary Rate Items			
2172	Computer Processing/DoA	0.900	0.770
2370	Telephone Equipment Charges/DoA	0.870	0.870
2385	Long Distance Charge/DoA	0.930	0.740
2190	Printing/ P&G	1.030	1.060
2193	Photocopy Pool Services	1.120	1.120
2404	In-State Motor Pool	1.370	1.520
Other Inflated Items			
2225	Books and Reference Materials	1.038	1.072
2304	Postage & Mailing	1.077	1.103
2802	Subscriptions	1.038	1.072

FISCAL 1995 SUPPLEMENTALS

The legislature added almost $20.7 million in supplemental appropriations in fiscal 1995 in HB 3, HB 14, and HB 16. Over $19.9 million of this total is general fund. The largest appropriation, $15.5 million of general fund, is for fire suppression costs in the Department of State Lands. This total compares to a general fund total of $82.2 million added through supplemental appropriations in the 1993 biennium. The reduction is primarily due to the absence in fiscal 1995 of supplemental appropriations for education or human services programs. Table 1 shows total general fund supplemental requests since fiscal 1987. As shown, only fiscal 1989 had less general fund supplemental appropriations.

Table 1
General Fund Supplementals
1987 to 1995 Biennia

Biennium	Millions
1987	$32.7
1989	17.1
1991	20.4
1993	82.2
1995	19.9

Table 2 lists each appropriation in fiscal 1995, by fund source. A short narrative on each follows the table. Neither the table nor the accompanying narrative include two changes approved by the legislature but vetoed by the Governor: 1) the addition of child care benefits to the Department of Social and Rehabilitation Services (SRS), that would have added $450,000 general fund and $1.1 million federal funds; and 2) an offsetting reduction in fiscal 1995 Aid to Families with Dependent Children (AFDC) benefits of $510,000 general fund and $1.2 million federal funds. Please note that the table includes the fiscal 1995 departmental configuration. In the 1997 biennium, the SRS functions will be included in the new Department of Public Health and Human Services, and the corrections functions of the Department of Corrections and Human Services will be included in the Department of Corrections.

Table 2
Supplemental Appropriations
Fiscal 1995

Agency/Purpose	General Fund	State Special	Federal Funds	Proprietary	Total
Secretary of State					
Business/Govt Services				$88,000	$88,000
Comm of Political Practices					
Initiative No. 118	$16,750				16,750
Legal Expenses	18,000				18,000
Department of State Lands					
Forest Fire Suppression*	15,497,849				15,497,849
Department of Justice					
Highway Patrol		$436,000			436,000
Legal Services	400,000				400,000
Woith vs. Cascade County**	1,000,000				1,000,000
Dept. of Social/Rehab Services					
Child Support Enforcement	66,000		$128,117		194,117
Office of Public Instruction					
Transportation Aid	1,620,000				1,620,000
Dept of Corrections/Human Svcs.					
Swan River Boot Camp	93,930				93,930
MSH Reception Overflow	300,000				300,000
Commissioner of Higher Ed					
Distribution Program	849,978				849,978
Vo-Tech Millage		126,433			126,433
Forest, Conservation Exp Station					
Research	48,977				48,977
Total	$19,911,484	$562,433	$128,117	$88,000	$20,690,034

*Includes $10,497,849 appropriated in HB 3 and $5,000,000 appropriated in HB 14.
**Appropriated in HB 16.

Secretary of State - costs incurred preparing and publishing for the 1994 general election.

Commissioner of Political Practices - implementation of I-118 (amendment of campaign finance laws) and unanticipated legal expenses due to an increase in complaints requiring investigation and defense of a suit in district court.

Department of State Lands - fire suppression costs. The amount of wildfire suppression supplemental budget authority approved by the legislature has varied widely, as Table 3 shows. Total fire suppression costs for the 1995 biennium (including emergency appropriation expenditures) as of the end of the legislative session are $24.5 million, the highest ever.

Table 3
General Fund Supplementals for
Fire Suppression Costs

Biennium	Millions
1985	$2.9
1987	3.7
1989	12.6
1991	3
1993	7.9
1995*	15.5

*Does not include $9.0 million of emergency appropriations authorized by the Governor and spent for wildfire suppression, including over $4 million in reimbursements from non-state sources.

Department of Justice - 1) highways special revenue for prisoner per diem paid to local detention centers for prisoners arrested by the Highway Patrol; 2) litigation costs of two water rights cases: the Crow coal and Blackfeet cases; and 3) costs associated with a judgment in favor of property taxpayers in Cascade County (Woith v. Cascade County).

Social and Rehabilitation Services - increased child enforcement benefits. This addition had originally been offset by a reduction in AFDC benefits. However, the reduction was line-item vetoed by the Governor.

Office of Public Instruction - reimbursements to school districts for transportation costs in accordance with the payment schedules set forth in section 20-10-140, MCA; section 20-10-142, MCA; and section 20-10-145, MCA.

Department of Corrections and Human Services - 1) increased security at Swan River Correctional Training Center (SRCTC) (including 5.0 FTE correctional officers); and 2) 31.0 FTE and funding to convert the old forensic building at the Montana State Hospital (MSH) campus into an 80 bed prison facility.

Commissioner of Higher Education (Montana University System) - additional general fund and millage due to differences between actual millage collections and the 1995 biennium appropriations. Additional millage is appropriated to the colleges of technology due to higher collections of the 1.5 mill county levy. General fund is added to the six units to replace 6 mill levy not collected.

Forestry and Conservation Experiment Station - additional costs to the experiment station for work related to the forest land taxation project.

HB 18

Anticipated fire suppression costs are not budgeted for by the legislature, and are not included in the projected ending fund balance for the 1997 biennium. Instead, all costs over the statutory appropriation available to the Governor for fire costs are to be paid through supplemental appropriation. The 1995 legislature, in an attempt to avoid some future supplemental requests, passed HB 18. This bill increased the total statutory appropriation available to the Governor from $3 million to $10 million over the biennium. The Governor also has a $2 million statutory appropriation for emergencies, which can be used for fire suppression. Consequently, in subsequent biennia a supplemental appropriation would be necessary only if total costs exceeded $12 million (assuming no other emergency appropriations are necessary). While the Governor has an increased ability to expend funds for fire suppression without a supplemental appropriation, none of these potential costs are included in the current projected ending fund balance for the 1997 biennium.

PERFORMANCE-BASED BUDGETING

Performance-based budgeting is a budgeting method that relates expenditures and revenues to workloads. It reflects a management orientation to efficiency in production. Performance budgets feature each program or sub-program with its own unit cost and goals. Goals and activities are defined to direct the program, and defined measures are used to evaluate efficiency and economy. This is in contrast to the existing incremental budget method used by the state, which focuses on adjustments to a base budget, and is not program specific. The incremental method does not track costs by program or function.

During the 1993 regular session, the legislature included language in the general appropriation act encouraging the Governor to foster development of a mission-driven, results-oriented budget system to enhance flexibility and improve decision-making information available to the legislature during the 1995 legislative session. The pilot project involved selected, non-general fund programs. Appropriations would be related to units of work, with the expectation that budget reductions could be enacted only with corresponding work reductions.

The pilot agencies chosen by the executive were: 1) the Montana State Library Natural Resource Information System (NRIS) program; 2) the Department of Military Affairs Air National Guard program; and 3) the Department of Administration Mail and Distribution program. The 1995 legislature authorized performance-based budgets for these programs, and specified the performing standards the programs were to attempt to meet in the 1997 biennium. For a further discussion of these performance measures, see the individual program narratives in the agency sections of Volumes I and II of the Legislative Fiscal Report.

The 1995 legislature included language in the boilerplate section of HB 2 that encourages the executive branch to expand the current performance-based budgeting pilot project for the 1999 biennium. The legislature recommended fourteen programs to consider for participation:

1) the Citizen's Advocate function in the Governor's Office;
2) the Business and Government Services function in the Secretary of State's office;
3) the Corporate Tax Division of the Department of Revenue;
4) the Motor Pool in the Department of Transportation;
5) the Child Support Enforcement Division in the new Department of Public Health and Human Services;
6/7) Job Service and the Human Rights Commission in the Department of Labor and Industry;
8) the Building Codes Division in the Department of Commerce;
9) the Fish, Wildlife, and Parks Enforcement Division;
10) the Forestry Division in the reorganized Department of Natural Resources and Conservation;
11) Drivers License Services in the Department of Justice;
12) the Chemical Dependency function in the new Department of Public Health and Human Services;
13) the Historic Preservation function in the Historical Society; and
14) the Student Assistance function in the Office of the Commissioner of Higher Education.

If the executive expands the pilot project to include any of these programs, the executive will propose budgets to the 1997 legislature that correlate to proposed performance measures.

AGENCY BUDGET COMPARISONS BY FUND

The following series of tables provide, by fund type, a comparison of the 1995 and 1997 biennium agency budgets. The 1995 biennium budget is comprised of the adjusted base fiscal 1994 actual expenditures and the fiscal 1995 appropriated levels. The 1997 biennium budget figures are as appropriated by the legislature in House Bill 2. Each fiscal year budget is shown, as well as combined biennium budgets and the biennial difference. The final table shows the agency comparison for all funds.

The numbers reported in the tables do not include any other appropriations bills, including the pay plan bill. Fiscal 1994 and fiscal 1995 figures have been adjusted for comparability to 1997 biennium figures to reflect three actions by the legislature:

1) the passage of SB 83, which: a) de-earmarked certain state special revenue accounts, resulting in a reduction in state special revenue and a corresponding increase in general fund; and b) eliminated certain statutory appropriations, necessitating that they be appropriated in HB 2;

2) the passage of HB 576, which eliminated the requirement that certain proprietary funds be appropriated; and

3) all reorganizations enacted by the legislature. All figures reflect the new agency structures.

General Fund

As defined in 17-7-102, MCA, the general fund "accounts for all financial resources except those required to be accounted for in another fund." The general fund is used to fund the general operations of state government.

The largest general fund increases are in human services, corrections, and K-12 education. The majority of the increase in human services is due to increased medicaid costs in the Department of Public Health and Human Services. Smaller increases occur in Aid to Families with Dependent Children, as well as programs for the developmentally disabled and for seriously emotionally disturbed youth. The increase in corrections is due to an increase in both prison and community corrections programs to address the rising correctional population. The increase in the Office of Public Instruction is due to increased public school enrollments.

General Fund Comparison
House Bill 2 Only
95 Biennium Versus Legislative Budget 97 Biennium

Agcy Code	Agency Name	Base Fiscal 1994	Adjusted Appropriated Fiscal 1995	Total Leg. Budget Fiscal 1996	Total Leg Budget Fiscal 1997	Total Fiscal 94-95	Total Leg. Budget Fiscal 96-97	Difference 97 Biennium - 95 Biennium
1101	Legislative Auditor	$1,247,557	$1,318,958	$1,409,015	$1,422,465	$2,566,515	$2,831,480	$264,965
1102	Legislative Fiscal Analyst	768,231	851,530	809,715	810,219	1,619,761	1,619,934	173
1104	Legislative Council	1,681,624	2,158,392	2,284,327	2,778,094	3,640,016	5,062,421	1,222,405
1111	Environmental Quality Council	272,898	277,512	274,789	272,493	550,410	547,282	(3,128)
2110	Judiciary	6,351,461	5,487,140	5,888,770	6,811,061	10,838,601	11,699,831	861,230
3101	Governors Office	2,313,654	2,362,719	2,631,970	2,590,133	4,676,273	6,222,103	545,830
3201	Secretary Of States Office	40,309	68,433	37,119	37,490	108,742	74,609	(34,133)
3202	Commissioner Of Political Prac	126,627	123,384	361,972	343,856	250,011	705,828	455,817
3401	State Auditors Office	1,695,412	1,866,627	2,113,909	2,072,020	3,562,039	4,185,929	623,890
3501	Office Of Public Instruction	450,355,003	448,390,257	466,040,161	461,826,082	898,745,260	927,866,233	29,120,973
4107	Crime Control Division	1,512,628	1,818,309	2,180,211	2,180,079	3,330,937	4,360,290	1,029,353
4110	Department Of Justice	13,034,713	9,537,705	15,203,769	14,823,766	22,572,418	30,027,525	7,455,107
5100	University System	108,085,285	107,387,430	106,161,771	108,192,446	216,472,715	214,344,217	(1,128,498)
5101	Board Of Public Education	110,912	106,809	116,996	116,841	217,721	232,837	16,116
5113	School For The Deaf & Blind	2,490,611	2,584,556	2,904,060	2,834,048	6,076,167	5,738,108	662,941
5114	Montana Arts Council	122,838	120,340	126,853	107,713	243,178	234,566	(8,612)
5115	Library Commission	1,131,030	988,774	1,562,167	1,225,966	2,119,804	2,788,133	668,329
5117	Historical Society	1,343,285	1,295,897	1,327,917	1,313,147	2,639,182	2,641,064	1,882
5201	Dept Of Fish, Wildlife & Parks	401,995	353,522	410,747	409,931	755,517	820,678	65,161
5301	Dept Of Environmental Quality	909,673	1,114,039	2,144,637	2,159,448	2,023,712	4,304,085	2,280,373
6401	Department Of Transportation	209,061	213,045	250,000	250,000	422,106	600,000	77,894
6603	Department Of Livestock	374,907	423,189	476,397	479,020	798,096	955,417	157,321
5706	Dept Of Nat Resources/Conservation	10,764,842	10,556,552	12,979,784	12,792,376	21,321,394	25,772,160	4,450,766
6801	Department Of Revenue	20,520,178	19,627,243	22,362,283	22,348,362	40,147,421	44,710,635	4,563,214
6101	Department Of Administration	3,451,729	4,049,257	3,658,756	3,126,795	7,500,986	6,785,551	(716,435)
6102	Appellate Defender	0	0	100,000	100,000	0	200,000	200,000
6201	Department Of Agriculture	467,821	421,499	474,046	465,923	889,320	929,969	40,649
6401	Department Of Corrections	37,274,228	36,904,696	61,323,605	62,383,358	74,178,924	103,706,963	29,528,039
6501	Department Of Commerce	1,334,330	1,317,862	1,757,719	1,608,890	2,652,192	3,366,609	714,417
6602	Department Of Labor & Industry	811,601	788,152	1,194,399	1,181,545	1,599,753	2,376,944	776,191
6701	Department Of Military Affairs	1,951,162	1,952,408	2,163,316	2,134,776	3,903,570	4,298,091	394,521
6901	Dept Public Health & Human Services	191,298,028	203,967,090	218,777,273	229,349,622	395,265,118	448,126,795	52,861,677
	Totals	$861,453,533	$868,433,326	$929,498,443	$937,536,844	$1,729,886,859	$1,867,035,287	$137,148,428

AGENCY BUDGET COMPARISONS BY FUND

State Special Revenue Fund

As defined in 17-7-102, MCA, the state special fund "consists of money from state and other nonfederal sources deposited in the state treasury that is earmarked for the purposes of defraying particular costs of an agency, program, or function of state government and money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement, such as a contract, trust agreement, or donation."

State special revenue funds show an increase of $50.2 million. The largest increases are in:

1) the university system, due primarily to increased tuition collections as a result of increased costs and enrollment; and

2) the Department of Public Health and Human Services. However, this increase is primarily due to the addition of almost $21 million in spending authority to allow the department to expend funds from mental health managed care private contractors. The increase does not represent an increase in operations.

Because of a budgeting adjustment, the total increase of $49.9 million is actually <u>understated</u>. Two agencies show large reductions: the Montana Department of Transportation (MDT) and the Department of Commerce. However, these reductions are misleading, as they are both due to the elimination of double appropriations in the 1997 biennium: 1) $14.3 million of accomodations tax revenues in the Department of Commerce (all accomodations tax continues to be statutorally appropriated for various purposes); and 2) over $110 million in MDT. Without this offsetting reduction, MDT would show an increase of about $50 million, primarily for construction projects.

State Special Fund Comparison
House Bill 2 Only
95 Biennium Versus Legislative Budget 97 Biennium

Agcy Code	Agency Name	Base Fiscal 1994	Adjusted Appropriated Fiscal 1995	Total Leg. Budget Fiscal 1996	Total Leg Budget Fiscal 1997	Total Fiscal 94-95	Total Leg. Budget Fiscal 96-97	Difference 97 Biennium - 95 Biennium
1101	Legislative Auditor	$1,275,113	$1,458,842	$1,243,232	$1,243,125	$2,733,955	$2,486,357	($247,598
1104	Legislative Council	918,704	445,917	965,140	462,305	1,364,621	1,427,445	62,824
1111	Environmental Quality Council	13,814	0	13,966	14,117	13,814	28,083	14,269
1112	Consumer Counsel	865,919	1,007,311	1,008,198	1,025,665	1,873,230	2,033,863	160,633
2110	Judiciary	641,156	521,501	1,515,720	1,501,969	1,062,657	3,017,689	1,955,032
2115	Mt Chiropractic Legal Panel	8,840	12,000	14,000	14,000	20,840	28,000	7,160
3101	Governors Office	117,977	245,857	322,863	310,378	363,834	633,241	269,407
3202	Commissioner Of Political Prac	0	0	0	0	0	0	0
3401	State Auditors Office	393,339	523,931	484,353	486,243	917,270	970,596	53,326
3501	Office Of Public Instruction	377,893	118,215	422,021	457,909	496,108	879,930	383,822
4107	Crime Control Division	(1)	20,000	0	0	19,999	0	(19,999
4110	Department Of Justice	16,612,069	19,581,994	17,787,002	18,033,400	36,194,063	35,820,402	(373,661
4201	Public Service Regulation	2,080,070	2,056,012	2,098,523	1,932,618	4,136,082	4,031,141	(104,941
5100	University System	75,458,748	84,518,507	98,054,169	102,493,539	159,977,255	200,547,708	40,570,453
5101	Board Of Public Education	158,439	162,412	173,567	172,173	320,651	345,740	24,889
5113	School For The Deaf & Blind	228,382	466,232	282,688	282,529	694,614	565,217	(129,397
5114	Montana Arts Council	153,086	215,788	166,723	167,483	368,874	334,206	(34,668
5115	Library Commission	533,062	501,592	1,124,709	163,085	1,034,654	1,287,794	253,140
5117	Historical Society	90,071	103,092	152,049	152,423	193,163	304,472	111,309
5201	Dept Of Fish, Wildlife & Parks	22,608,669	24,299,208	27,244,963	25,879,744	46,907,877	53,124,707	6,216,830
5301	Dept Of Environmental Quality	11,284,749	15,642,172	14,866,852	14,486,167	26,926,921	29,353,019	2,426,098
5401	Department Of Transportation	149,975,461	167,794,265	148,026,510	153,984,570	317,769,746	302,011,080	(15,758,666
5603	Department Of Livestock	4,922,855	5,173,143	5,267,716	5,156,114	10,095,998	10,425,830	329,832
5706	Dept Of Nat Resources/Conservation	9,690,612	11,653,030	10,690,081	9,914,717	21,343,642	20,604,798	(738,844
5801	Department Of Revenue	747,076	800,342	791,615	777,153	1,547,418	1,568,768	21,350
6101	Department Of Administration	1,481,443	3,004,972	832,796	846,482	4,486,415	1,679,278	(2,807,137
6201	Department Of Agriculture	6,939,761	6,335,157	7,099,863	7,156,684	13,274,918	14,256,547	981,629
6401	Department Of Corrections	1,138,388	1,296,980	1,413,441	1,413,634	2,435,368	2,827,075	391,707
6501	Department Of Commerce	16,425,761	16,472,364	10,733,456	9,557,041	32,898,125	20,290,497	(12,607,628
6602	Department Of Labor & Industry	10,716,285	11,227,339	11,072,548	10,833,732	21,943,624	21,906,280	(37,344
6701	Department Of Military Affairs	42,855	44,142	80,447	85,796	86,997	166,243	79,246
6901	Dept Public Health & Human Services	22,001,682	25,029,375	27,841,792	47,593,029	47,031,057	75,434,821	28,403,764
	Totals	$357,802,278	$400,731,712	$391,791,003	$416,599,824	$758,533,990	$808,390,827	$49,856,837

Federal Special Funds

As defined in 17-7-102, MCA, the federal special fund "consists of money deposited in the treasury from federal sources, including trust income, that is used for the operation of state government."

Federal funds show a significant increase. Most of this increase occurs in three areas:

1) the Department of Public Health and Human Services, primarily due to increased federal funds for medicaid, developmental disabilities programs, protective services, and nutritional programs;

2) the Department of Transportation, primarily for additional construction activity; and

3) the Office of Public Instruction. This increase is partially due to an increase in federal pass-through grants and other minor increases. However, over $96 million is due to a change in accounting, as funds that had been allocated without an appropriation must now be appropriated.

Federal Fund Comparison
House Bill 2 Only
95 Biennium Versus Legislative Budget 97 Biennium

Agcy Code	Agency Name	Base Fiscal 1994	Adjusted Appropriated Fiscal 1995	Total Leg. Budget Fiscal 1996	Total Leg. Budget Fiscal 1997	Total Fiscal 94-95	Total Leg. Budget Fiscal 96-97	Difference 97 Bienoium - 95 Biennium
2110	Judiciary	$0	$75,000	$122,500	$110,000	$75,000	$232,500	$157,500
3101	Governors Office	128,098	169,194	2,184,222	2,185,998	297,292	4,370,220	4,072,928
3501	Office Of Public Instruction	8,920,115	4,699,128	126,566,936	4,181,988	13,619,243	130,748,924	117,129,681
4107	Crime Control Division	3,606,329	3,804,657	5,449,500	5,464,500	7,410,986	10,914,000	3,503,014
4110	Department Of Justice	1,573,232	1,477,546	2,916,201	2,545,697	3,050,778	5,461,898	2,411,120
4201	Public Service Regulation	19,337	28,168	25,668	25,668	47,505	51,336	3,831
5100	University System	13,087,541	13,715,831	14,298,310	14,566,468	26,803,372	28,864,778	2,061,406
5113	School For The Deaf & Blind	80,977	110,059	69,890	69,890	191,036	139,780	(51,256
5114	Mootana Arts Council	588,562	255,175	637,308	537,310	843,737	1,074,618	230,881
5115	Library Commission	612,269	401,286	2,133,230	416,545	1,013,555	2,549,775	1,536,220
6116	Vocational Education Council	153,512	167,890	167,406	167,644	321,402	335,050	13,648
5117	Historical Society	502,380	707,380	611,620	698,876	1,209,760	1,210,496	736
5201	Dept Of Fish, Wildlife & Parks	7,019,742	10,132,496	10,200,823	9,674,911	17,152,238	19,875,734	2,723,496
5301	Dept Of Environmental Quality	12,271,884	18,614,900	14,008,687	13,482,262	30,886,784	27,490,949	(3,395,835
5401	Departmeot Of Transportation	153,057,685	166,579,811	198,331,967	203,012,215	319,637,496	401,344,182	81,706,686
5603	Department Of Livestock	313,497	366,705	319,968	331,520	680,202	651,488	(28,714
5706	Dept Of Nat Resources/Conservation	1,173,625	1,311,082	1,429,333	1,300,791	2,484,707	2,730,124	245,417
5801	Department Of Reveoue	196,692	197,359	232,383	232,202	394,051	464,585	70,534
6101	Department Of Administration	16,792	30,667	217,343	16,784	47,459	234,127	186,668
6201	Department Of Agriculture	467,068	528,876	676,504	720,643	995,944	1,397,147	401,203
6401	Department Of Corrections	530,456	856,302	547,928	572,552	1,386,758	1,120,480	(266,278
6501	Department Of Commerce	24,720,292	30,958,079	34,584,766	32,604,131	66,678,371	67,188,897	11,510,526
6602	Department Of Labor & Industry	25,245,364	26,936,552	26,771,229	26,935,287	52,181,916	53,706,516	1,524,600
6701	Department Of Military Affairs	4,181,821	4,667,153	5,044,683	5,040,507	8,848,974	10,085,190	1,236,216
6901	Dept Public Health & Human Services	385,021,308	406,738,764	445,465,989	460,253,280	791,760,072	905,719,269	113,959,197
	Totals	$643,488,578	$693,530,060	$892,914,394	$785,047,669	$1,337,018,638	$1,677,962,063	$340,943,425

Proprietary Funds

As defined in 17-7-102, MCA, proprietary funds are defined as either enterprise or internal service funds. Enterprise funds "account for operations: (A) that are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e., expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges; or (B) whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes". Internal service funds "account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursed basis".

Proprietary funds show a significant increase, primarily due to a change in funding for the warrant writing system from general and other funds to proprietary funds in the Department of Administration. As noted earlier, however, HB 576 eliminated the requirement that most proprietary funds be appropriated. As a result, over $212 million of proprietary funds were taken out of HB 2. Therefore, any increases in the programs supported with those proprietary funds are not reflected in the table.

Proprietary Fund Comparison
House Bill 2 Only
95 Biennium Versus Legislative Budget 97 Biennium

Agcy Code	Agency Name	Base Fiscal 1994	Adjusted Appropriated Fiscal 1995	Total Leg. Budget Fiscal 1996	Total Leg Budget Fiscal 1997	Total Fiscal 94-95	Total Leg Budget Fiscal 96-97	Difference 97 Biennium - 95 Biennium
3201	Secretary Of States Office	$0	$0	$0	$0	$0	$0	$0
3401	State Auditors Office	0	0	0	0	0	0	0
3501	Office Of Public Instruction	0	0	0	0	0	0	0
4110	Department Of Justice	9,815	9,532	9,024	8,092	19,347	17,116	(2,231)
5100	University System	916,734	942,406	934,606	937,884	1,859,140	1,872,490	13,350
5117	Historical Society	590,569	591,950	739,684	739,574	1,182,519	1,479,158	296,639
5201	Dept Of Fish, Wildlife & Parks	0	0	0	0	0	0	0
5301	Dept Of Environmental Quality	0	0	0	0	0	0	0
5401	Department Of Transportation	0	0	0	0	0	0	0
5706	Dept Of Nat Resources/Conservation	0	0	0	0	0	0	0
5801	Department Of Revenue	554,356	534,207	369,522	334,916	1,088,563	704,438	(384,125)
6101	Department Of Administration	67,098	66,312	839,002	817,464	133,410	1,656,466	1,523,056
6103	State Compensation Ins. Fund	0	0	0	0	0	0	0
6201	Department Of Agriculture	211,509	218,571	227,921	231,622	430,080	459,543	29,463
6401	Department Of Corrections	184,080	84,085	465,515	459,804	268,165	925,319	657,154
6501	Department Of Commerce	0	0	0	0	0	0	0
6602	Department Of Labor & Industry	602,914	643,529	529,640	541,299	1,246,443	1,070,939	(175,504)
	Totals	$3,137,075	$3,090,592	$4,114,814	$4,070,655	$6,227,667	$8,185,469	$1,957,802

Other Funds

Other funds include capital projects and fiduciary funds. As defined in 17-7-102, MCA, the capital projects fund "accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds". The fiduciary funds include "trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agent for individuals, private organizations, other governmental entities, or other funds. These include the: (i) expendable trust fund type; (ii) the non-expendable trust fund type; (iii) pension trust fund type; and (iv) agency fund type".

Comparison tables are provided below for the capital projects funds, the expendable trust fund, the non-expendable/pension trust funds and the selected agency funds. Agency funds expended in fiscal 1994 and budgeted for fiscal 1995 for the Office of Public Instruction are budgeted as federal special revenue funds in the 1997 biennium.

Capital Projects Fund Comparison
House Bill 2 Only
95 Biennium Versus Legislative Budget 97 Biennium

Agcy Code	Agency Name	Base Fiscal 1994	Adjusted Appropriated Fiscal 1995	Total Leg. Budget Fiscal 1996	Total Leg. Budget Fiscal 1997	Total Fiscal 94-95	Total Leg Budget Fiscal 96-97	Difference 97 Biennium - 95 Biennium
6706	Dept Of Nat Resources/Conservation	$0	$0	$0	$0	$0	$0	$0
6101	Department Of Administration	58,304	58,312	58,801	58,801	116,616	117,602	986
	Totals	$58,304	$58,312	$58,801	$58,801	$116,616	$117,602	$986

Expendable Trust Fund Comparison
House Bill 2 Only
95 Biennium Versus Legislative Budget 97 Biennium

Agcy Code	Agency Name	Base Fiscal 1994	Adjusted Appropriated Fiscal 1995	Total Leg Budget Fiscal 1996	Total Leg. Budget Fiscal 1997	Total Fiscal 94-95	Total Leg. Budget Fiscal 96-97	Difference 97 Biennium - 95 Biennium
6301	Dept Of Environmental Quality	$324,187	$0	$0	$0	$324,187	$0	($324,187)
6101	Department Of Administration	0	11,749	1,000,000	0	11,749	1,000,000	988,261
6201	Department Of Agriculture	74,431	65,193	77,355	79,346	138,624	166,701	17,077
	Totals	$398,618	$76,942	$1,077,356	$79,346	$476,560	$1,166,701	$681,141

Non-Expendable Trust Fund Comparison
House Bill 2 Only
95 Biennium Versus Legislative Budget 97 Biennium

Agcy Code	Agency Name	Base Fiscal 1994	Adjusted Appropriated Fiscal 1995	Total Leg. Budget Fiscal 1996	Total Leg. Budget Fiscal 1997	Total Fiscal 94-95	Total Leg Budget Fiscal 96-97	Difference 97 Biennium - 95 Biennium
6104	Public Employees Retirement Bd	$1,112,988	$1,129,987	$1,341,170	$1,168,613	$2,242,975	$2,609,783	$268,808
6106	Teachers Retirement Board	649,069	639,472	719,720	697,118	1,288,641	1,416,838	128,297
	Totals	$1,762,057	$1,769,459	$2,060,890	$1,865,731	$3,531,616	$3,926,621	$395,105

Agency Fund Comparison
House Bill 2 Only
95 Biennium Versus Legislative Budget 97 Biennium

Agcy Code	Agency Name	Base Fiscal 1994	Adjusted Appropriated Fiscal 1995	Total Leg. Budget Fiscal 1996	Total Leg. Budget Fiscal 1997	Total Fiscal 94-95	Total Leg. Budget Fiscal 96-97	Difference 97 Biennium - 95 Biennium
3501	Office Of Public Instruction	$48,448,031	$48,448,031	$0	$0	$96,896,062	$0	($96,896,062)
	Totals	$48,448,031	$48,448,031	$0	$0	$96,896,062	$0	($96,896,062)

AGENCY BUDGET COMPARISONS BY FUND

Current Unrestricted Funds

As defined in 17-7-102, MCA, the higher education funds include the current fund, the student loan fund, the endowment fund, the annuity and life income fund, the plant fund and the agency fund. The current fund, "which accounts for money deposited in the state treasury that is used to pay current operating costs relating to instruction, research, public service, and allied support operations and programs conducted within the Montana university system and vocational-technical centers. The financial activities of the current fund are subdivided, for operational purposes, into the four following subfunds to serve the purpose indicated...". These subfunds are the unrestricted subfund, the restricted subfund, the designated subfund, and the auxiliary subfund. Of these, only the current unrestricted subfund is appropriated by the legislature.

All funds appropriated to the Montana University System (MUS) are shown to reflect fund origin, rather than expenditure in the MUS. Therefore, all funds appear in either the general fund, state special revenue, or federal revenue tables.

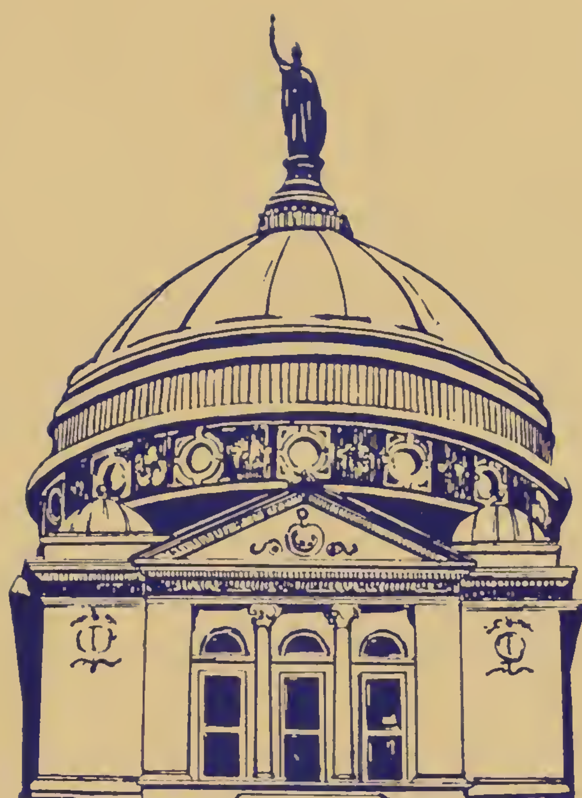
AGENCY BUDGET COMPARISONS BY FUND

All Budgeted Funds

The final comparison table is a composite by agency of the preceding tables, and shows a $434.1 million increase in total fund expenditures. Base fiscal 1994 in this table excludes the Commissioner of Higher Education appropriation transfers of $117,019,933.

All Fund Comparison
House Bill 2 Only
95 Biennium Versus Legislative Budget 97 Biennium

Agcy Code	Agency Name	Base Fiscal 1994	Adjusted Appropriated Fiscal 1995	Total Leg. Budget Fiscal 1996	Total Leg. Budget Fiscal 1997	Total Fiscal 94-95	Total Leg. Budget Fiscal 96-97	Difference 97 Biennium - 95 Biennium
1101	Legislative Auditor	$2,522,670	$2,777,800	$2,652,247	$2,665,590	$5,300,470	$5,317,837	$17,367
1102	Legislative Fiscal Analyst	768,231	851,530	809,715	810,219	1,619,761	1,619,934	173
1104	Legislative Council	2,600,328	2,604,309	3,249,467	3,240,399	5,204,637	6,489,866	1,285,229
1111	Environmental Quality Council	286,712	277,512	288,755	286,610	564,224	575,365	11,141
1112	Consumer Counsel	865,919	1,007,311	1,008,198	1,025,665	1,873,230	2,033,863	160,633
2110	Judiciary	6,892,617	6,083,641	7,526,990	7,423,030	11,976,258	14,950,020	2,973,762
2115	Mt Chiropractic Legal Panel	8,840	12,000	14,000	14,000	20,840	28,000	7,160
3101	Governors Office	2,559,629	2,777,770	5,139,055	5,086,509	5,337,399	10,225,564	4,888,165
3201	Secretary Of States Office	40,309	68,433	37,119	37,490	108,742	74,609	(34,133)
3202	Commissioner Of Political Prac	126,627	123,384	361,972	343,856	250,011	705,828	455,817
3401	State Auditors Office	2,088,751	2,390,558	2,598,262	2,558,263	4,479,309	5,156,525	677,216
3501	Office Of Public Instruction	508,101,042	501,655,631	594,781,108	464,713,979	1,009,756,673	1,059,495,087	49,738,414
4107	Crime Control Division	5,118,956	5,642,966	7,629,711	7,644,579	10,761,922	15,274,290	4,512,368
4110	Department Of Justice	31,229,829	30,606,777	35,915,996	35,410,945	61,836,606	71,326,941	9,490,335
4201	Public Service Regulation	2,099,407	2,084,180	2,124,191	1,958,286	4,183,587	4,082,477	(101,110)
5100	University System	197,548,308	206,564,174	219,438,856	226,190,337	404,112,482	445,629,193	41,516,711
5101	Board Of Public Education	269,351	269,221	290,563	288,014	538,572	578,577	40,005
5113	School For The Deaf & Blind	2,799,970	3,160,847	3,256,638	3,186,467	5,960,817	6,443,105	482,288
5114	Montana Arts Council	864,486	591,303	830,884	812,506	1,455,789	1,643,390	187,601
5115	Library Commission	2,276,361	1,891,652	4,820,106	1,805,596	4,168,013	6,625,702	2,457,689
5116	Vocational Education Council	153,512	167,890	167,406	167,644	321,402	335,050	13,648
5117	Historical Society	2,526,305	2,698,319	2,831,170	2,804,020	5,224,624	5,635,190	410,566
5201	Dept Of Fish, Wildlife & Parks	30,030,406	34,785,226	37,856,533	35,964,586	64,815,632	73,821,119	9,005,487
5301	Dept Of Environmental Quality	24,790,493	35,371,111	31,020,176	30,127,877	60,161,604	61,148,053	986,449
5401	Department Of Transportation	303,242,207	334,587,141	346,608,477	357,246,785	637,829,348	703,855,262	66,025,914
5603	Department Of Livestock	5,611,259	5,963,037	6,064,081	5,968,654	11,574,296	12,032,735	458,439
5706	Dept Of Nat Resources/Conservation	21,629,079	23,520,664	25,099,198	24,007,884	45,149,743	49,107,082	3,957,339
5801	Department Of Revenue	22,018,302	21,159,151	23,755,803	23,692,623	43,177,453	47,448,426	4,270,973
6101	Department Of Administration	5,075,366	7,221,269	6,606,698	4,866,326	12,296,635	11,473,024	(823,611)
6102	Appellate Defender	0	0	100,000	100,000	0	200,000	200,000
6103	State Compensation Ins. Fund	0	0	0	0	0	0	0
6104	Public Employees Retirement Bd	1,112,988	1,129,987	1,341,170	1,168,613	2,242,975	2,509,783	266,808
6105	Teachers Retirement Board	649,069	639,472	719,720	697,118	1,288,541	1,416,838	128,297
6201	Department Of Agriculture	8,160,590	7,569,296	8,555,689	8,644,218	15,729,886	17,199,907	1,470,021
6401	Department Of Corrections	39,127,152	39,142,063	53,750,489	54,829,348	78,269,215	108,579,837	30,310,622
6501	Department Of Commerce	42,480,383	48,748,305	47,075,941	43,770,062	91,228,688	90,846,003	(382,685)
6602	Department Of Labor & Industry	37,376,164	39,595,572	39,567,816	39,491,863	76,971,736	79,059,679	2,087,943
6701	Department Of Military Affairs	6,175,838	6,663,703	7,288,446	7,261,078	12,839,541	14,549,524	1,709,983
6901	Dept Public Health & Human Services	598,321,018	635,735,229	692,085,054	737,195,831	1,234,056,247	1,429,280,885	195,224,638
	Totals	$1,916,548,474	$2,016,138,434	$2,223,267,700	$2,143,506,870	$3,932,686,908	$4,366,774,570	$434,087,662



GENERAL FUND STRUCTURAL BALANCE

GENERAL FUND STRUCTURAL BALANCE

General Fund Potential Deficit

The 1993 legislature overcame a structural imbalance in the general fund that had existed for six bienniums, achieving a match of revenues and expenditures for the 1995 biennium. In the November 1993 Special Session, after re-balancing the general fund, revenues and expenditures again nearly matched.

An improvement in the state's economy and state revenue flow left the 1995 legislature in the enviable position of a budget surplus, based on anticipated revenues adopted in HJR 9. Revenues through fiscal 1995 were higher than expected, and with a forecast of continued growth, the legislature faced a surplus even after funding present law increases in state agency budgets. Although the legislature approved significant increases in state spending (primarily for human services, corrections costs, and increasing school enrollments), it also elected to return a part of the anticipated surplus to the taxpayer in the form of tax relief, primarily in business and residential property taxes as well as an income tax refund.

However, as shown in Table 1, approved expenditures exceed ongoing revenues for the 1997 biennium. The table shows anticipated revenues of $1,994.6 million (including an anticipated fund balance of $41.1 million), as adopted in HJR 9, prior to legislative budget action. As shown at the bottom of the table, anticipated revenues ($1,953.5 million) are below the approved state disbursements of $1,981.8 million. When tax relief initiatives of $10.0 million are added, the structural imbalance worsens. The resulting budget was balanced with $18.9 million of one-time revenues and a reduction in the ending reserve. This creates a shortfall of ongoing revenues to support the approved level of appropriations for the 1997 biennium, resulting in a structural imbalance in the general fund.

Table 1
Fiscal Implications For The 1999 Biennium
Figures In Millions

Bill No.	Bill Description		Biennium 96-97	Biennium 98-99	Dollar Change
Anticipated Revenue + Fund Balance			$1,994.6	$2,092.4	$97.8
Major Tax Changes					
SB417	Personal Property Tax Relief		(18.3)	(56.0)[1]	(37.7)
HB497	Residential Property Tax Relief	(15.0)	(Approp.)	0.0	0.0
HB497	Low Income Property Tax Relief		(1.9)	(2.7)	(0.8)
	Total Property Tax Changes		($20.2)	($58.7)	($38.5)
HB090	Exempt First Three Barrels of Oil		(2.0)	(2.0)	0.0
HB343	Coal Severance Tax Enhancement Exemption		(0.3)	(0.3)	0.0
SB338	New Oil & Gas Tax Exemption		(1.3)	(1.7)	(0.4)
	Total Coal,Oil,Gas Changes		($3.6)	($4.0)	($0.4)
HB171	Income Tax Relief (EXTRA)	(16.4)	(Approp.)	0.0	0.0
HB202	Income Tax Deduction For Medical Premiums		(3.2)	(3.4)	(0.2)
HB209	Minimum Standard Deduction		(0.5)	(1.0)	(0.5)
HB560	Medical Care Savings Account		(3.1)	(6.2)	(3.1)
	Total Income Tax Changes		($6.8)	($10.6)	($3.8)
---	All Other Revenue Legislation		$20.6	$20.6	0.0
	Total Tax Changes		($10.0)	($52.7)	($42.7)
One-Time Revenues					
HB002	Coal Board Grant Transfer		4.1	0.0	(4.1)
HB019	Highway Coal Tax Transfer		5.2	0.0	(5.2)
HB574	Liquor Inventory Transfer		4.4	0.0	(4.4)
SB257	Rail Car Tax		0.0	0.0	0.0
SB412	Oil and Gas Tax Reform		5.2	0.0	(5.2)
	Total One-Time Revenue		$18.9	$0.0	($18.9)
Major Disbursements					
HB171	Income Tax Relief (EXTRA)	0.00%	(16.4)	0.0	16.4
HB497	Residential Property Tax Relief	0.00%	(15.0)	0.0	15.0
---	Human Services	6.50%	(448.1)	(508.2)	(60.1)
---	Corrections	8.00%	(103.7)	(121.0)	(17.3)
---	Higher Education	1.50%	(214.3)	(220.8)	(6.5)
---	K-12 Education	1.50%	(927.9)	(955.9)	(28.0)
---	All Other Government	2.00%	(173.0)	(180.0)	(7.0)
---	All Other Authority	0.00%	(66.8)	(66.8)	0.0
---	Highway Patrol Funding Switch	NA	0.0	(31.5)	(31.5)
HB017	Employee Pay Proposal	NA	(16.6)	(24.0)	(7.4)
	Total Disbursements		($1,981.8)	($2,108.2)	($126.4)
	Grand Totals		$21.7	($68.5)	($90.2)

[1] Costs are estimated to increase to $66 million in the 2001 biennium.

GENERAL FUND STRUCTURAL BALANCE

Future legislatures face the difficulty of holding down budget growth when confronted with increased medicaid spending, higher corrections costs due to efforts to control crime, and rising enrollments in the educational system. Recognizing these conditions, the imbalance in the general fund will be exacerbated in the 1999 biennium and beyond by the anticipated growth in both state expenditures and tax relief initiatives authorized by the 1995 legislature. As shown in Table 1, tax changes will reduce available revenues by $52.7 million in the 1999 biennium, an additional $42.7 million over the 1997 biennium. This is due primarily to a progressive increase in personal property tax relief. Even with anticipated growth in state revenues of approximately 3.0 percent, the 1997 legislature would be left with about $67 million to fund anticipated growth in state programs to maintain present law functions.

State expenditures to maintain present law operations generally increase from biennium to biennium due to inflation, caseload, and enrollment increases. A conservative estimate of growth in state expenditures for the 1999 biennium would increase general fund disbursements to $2,108.2 million, an increase of $126.4 million over the 1997 biennium, as shown in Table 1. This would leave a general fund deficit of $68.5 million, or a shortfall of $90.2 million if an ending fund balance equal to the 1997 biennium fund balance is to be maintained. The anticipated growth in expenditures is based on the assumptions discussed below.

Medicaid Cost Increases

Medicaid costs have been increasing at double digit rates over the past several years (22 percent in fiscal 1993), although they slowed to less than 10 percent in the 1995 biennium. Increases are fueled by: 1) medical cost inflation, which historically has outstripped general price inflation; 2) federal mandates requiring states to extend medical coverage to additional groups; 3) increased service utilization; and 4) improvements in medical technology that successfully treat conditions that previously were terminal. The 1997 biennium budget provides for an increased total human services budget of $52.9 million, and the 1999 biennium estimate assumes a 6.5 percent increase in human services costs, or a $60.1 million increase. No assumptions are made about potential federal government reductions in medicaid support to states, and whether mandated benefits will be changed.

Corrections Costs

The 1995 legislature approved a number of corrections reform bills that are anticipated to result in a higher incarceration rate in future bienniums. Although the fiscal impact of these measures is difficult to measure, corrections costs are conservatively estimated to grow at a rate of 8 percent, or $17.3 million for the 1999 biennium. This compares to a growth in the Department of Corrections budget of $29.5 million (40 percent) in the 1997 biennium.

Higher Education

Higher education costs are anticipated to grow at a rate of 1.5 percent, reflecting increased enrollment estimates.

Public School Support

Estimates of changes in average number belonging (ANB) counts for K-12 education anticipate a growth in ANB that mirrors the growing population trend in Montana. The growth anticipated in the 1997 biennium budget is expected to continue into the 1999 biennium, resulting in an increase in education costs of $28.0 million based on present law school equalization formulas.

Pay Plan Cost Annualization

The approved employee pay plan will cost $16.6 million general fund in the 1997 biennium. Since the pay plan increase will be phased in throughout the 1997 biennium, the total cost for the 1999 biennium will be 24.0 million, or an increase of $7.4 million.

General Growth

Growth in general government costs is estimated at 2 percent, or $7.0 million.

GENERAL FUND STRUCTURAL BALANCE

Funding Switch

The Governor recommended in the 1997 biennium budget proposal to shift funding for the Highway Patrol Division in the Department of Justice from highways special revenue funds to general fund during the 1999 biennium. This change would allow the dedication of highway funds toward an expanded construction program. The biennial cost of the Highway Patrol Division is $31.5 million. This would add a significant increase to general fund costs in the 1999 biennium. Nonetheless, if the Highway Patrol Division continues to receive funding from highway funds, the highways special revenue fund will be in a structural imbalance.

Contingencies

No estimate is included in Table 1 for increased expenditures due to emergencies and/or contingencies. These include supplemental budget requests, which historically exceed $20 million per biennium, with fire suppression costs being the primary unfunded contingency. Other unfunded risks include significant reductions in federal support for medicaid and other programs, and litigation addressing state tax policy. In addition, the general fund reserve of $21.7 million is minimal, and the state budget could easily be unbalanced by any increase in costs or a shortfall in revenues.

Summary

Table 1 shows a potential budget shortfall in the 1999 biennium of $90.3 million. The budget shortfall represents the minimum amount of additional revenue growth or expenditure savings needed to achieve a balanced budget during the 1999 biennium. As such, it provides a measure of budget-balancing actions that may be required and a basis for comparing different approaches to the 1997 legislative session budget issues.

The cost increases discussed above will put a severe strain on existing general fund revenue sources to fund present law needs, even if current economic conditions continue. To meet the projected budget gap, revenues would have to increase over 5.7 percent instead of the estimated 3.0 percent.

INDEX

INDEX

400 copies of this public document were published at an estimated cost of $3.75 per copy, for a total cost of $1,500.00, which includes $1,500.00 for printing and $.00 for distribution.

This document printed on recycled paper.